EUROPE'S BUSINESS NEWSPAPER

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DEFENCE
Gramm-Rudman meets Gorbachev
Page 14

World News

Bush policy to end China isolation criticised

President George Bush faces a wave of domestic criticism after sending two senior US envoys to China in a mission aimed at restoring relations with the Peking Government.

The surprise weekend visit led by Brent Scowcroft, Mr Bush's national security adviser, formally ended the administration's six-month ban on high-level contacts with China imposed after soldiers massacred hundreds of pro-democracy demonstrators in June. Page 4

SA opposition split
Differences between rival anti-apartheid groups prevented the largest black political conference ever held in South Africa from achieving its aim of uniting opposition forces against the Pretoria government. Page 16

European summit
British Prime Minister Margaret Thatcher will tomorrow seek to reassure Conservative MPs on the outcome of the European summit that she is not taking an isolationist role in the EC and that she intends to ensure Britain participates fully in the next stages of its development. Page 16; summit report, Page 3

Sofia hardliners go
Bulgaria's new communist party leadership, apparently firmly in control, purged the remaining hardliners from the politburo and expelled Todor Zhivkov, the former leader, from the party. Page 2

Hurd defends policy
British Foreign Secretary Douglas Hurd defended the treatment of Vietnamese boat people in Hong Kong and said Hanoi had agreed not to punish those sent home under a repatriation plan.

Sudan soon foodless
The Sudanese government said that three towns, including Juba, the biggest in the south, are about to run out of food.

Brazilian poll close
Brazil's presidential election looked on course for a photo finish as opinion polls showed the gap continuing to narrow between the centre-right front runner, Fernando Collor de Mello, and his socialist rival, Luis Inacio Lula da Silva. Page 4

Hungary nears deal
Emergency talks between Hungary's government and the independent political parties and trade unions, aimed at tackling serious economic problems and filling the political vacuum, were edging towards a consensus. Page 2

Unification favoured
Three out of four West Europeans support German reunification, according to an opinion poll in the 12 European Community nations.

Carter offers help
Former US president Jimmy Carter offered to mediate between Ethiopia and Israel on further emigration of Ethiopian Jews to the Jewish state.

France sends patrol
France sent a naval patrol to the Comoros archipelago in the Indian Ocean but ruled out military intervention in its former territory, despite the refusal of the mercenaries to leave.

Teacher made saint
A Belgian priest, Father Mutien Marie Wiaux, who devoted his life to teaching children religion was declared a saint by Pope John Paul II.

Argentinians strike
Argentine railway workers went on strike paralysing most of the country's train services, as President Carlos Menem's cabinet prepared a package of new economic measures.

Namibian memorial
Swapo, Namibia's former guerrilla movement, joined some of its main political rivals at a service to commemorate the murder of 18 blacks by South African police 30 years ago.

Andorrans vote
Andorrans voted for a new parliament in their mountain principality where political parties are banned.

Escargots brulés
Fifteen thousand one-year-old snails bred for top gourmet restaurants in France were killed when fire swept through their breeding pens at a Lincolnshire, England, farm.

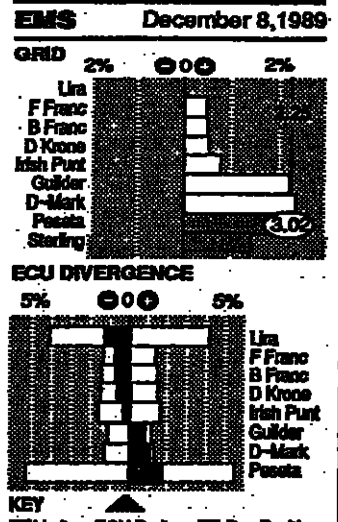
Business Summary

Euromarket future in doubt after Tokyo move

Moves by the Japanese Ministry of Finance appear to have jeopardised the future of the Euromarket by threatening to staunch the flow of Japanese equity warrants that has been the market's lifeblood.

The substance of the MoF's intentions seemed to be directed at the trading rather than the issuing of equity warrants, but many houses are worried the side-effects will be damaging to the Euromarket's core business. Page 18

EUROPEAN Monetary System: the Spanish peseta remained the firmest currency as investors continued to favour Spain's high interest rates. The D-Mark was also strong as the political upheaval in Eastern Europe unfolded. But the French franc eased and took it near the bottom of the EMS grid.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

CANADA'S financial services: the Mulroney Government failed to achieve consensus on new legislation governing the financial services industry after three years of trying. Page 19

ARGENTINA'S debt: A $500m debt-equity conversion fund aimed at Argentina's forthcoming privatisation programme is being set up by banks with the International Finance Corporation, the World Bank's equity affiliate. Page 19

BELL resources, 58 per cent owned by Bond Corp Holdings, said it would fight the request by The Adelaide Steamship group to the West Australian Supreme Court for a receiver to be appointed to the company. Page 19

UK PETROL Stations: Oil company control over UK petrol stations could be seriously weakened under UK Monopolies and Mergers Commission proposals. Page 16

BRITISH Aerospace is involved in negotiations in Thailand to establish a bridgehead for its slow-selling BAe 146 regional jetliner in the growing South-East Asian airline market. Page 5

KODAK: Colby Chandler, chief executive of Eastman Kodak, is retiring from the photographics products company after six years. Page 19

MONDADORI: the battle for control of the Italian publishing group promises a rich volley of legal salvoes this week after a decision by the company's board to seek a L320bn ($243m) capital increase at an extraordinary shareholders' meeting on January 26. Page 19

NRJ, France's third largest commercial radio station, completed its flotation on the Paris market after relaunching its share after its share issue was subscribed a record 300 times. Page 19

CIBA-Geigy of Switzerland's and its US partner Chiron Corporation will inject research funds totalling about C$250m ($216m) into Connaught Biosciences if the Federal Government gives the go-ahead for its takeover offer of the Canadian vaccine maker. Page 19

UK Water privatisation: The basis of allocation of shares in the £5.24bn ($8.2bn) water privatisation issue will be announced today. Page 6

HUSAK RESIGNS ● FORMER DISSIDENTS IN TOP POSTS ● HAVEL PRESIDENTIAL FAVOURITE

Czech reformers take over

By John Lloyd and A.H. Hermann in Prague

CZECHOSLOVAKIA yesterday took a step from totalitarianism towards fledgling democracy when President Gustav Husak resigned after swearing in a reformist government in which Communists are in the minority.

The new Government, in which dissidents persecuted in the past occupy key posts, faces the task of taking the country into free elections.

In Wenceslas Square, as the Government was taking the oath of office, Mr Vaclav Havel, the moral leader of the Civic Forum opposition movement, told a cheering crowd: "Truth and love will win against lies and hatred."

Mr Havel, the playwright, has emerged as the main candidate for the presidency following his declaration last week that he would stand for the post.

His supporters said last night they could see no other credible candidate.

The cabinet includes three pro-market economists, including Dr Valtr Komarek who becomes first Deputy Prime Minister.

The secret police, the STB, will be under the direct control of Dr Jan Carnogusky, who until two weeks ago was in jail for civil rights activities in Slovakia.

Mr Marian Calfa, the 42-year-old Communist prime minister who impressed a sceptical opposition with his handling of the negotiations to form a government said yesterday: "We are ready in the economic sphere to open the doors to economic cooperation."

His economic team – Dr Komarek, Dr Vladimir Dlouhy, a deputy Prime Minister who is also head of the Planning Commission and Mr Vlaclav Klaus, the Finance Minister – are men of a radical, even neo-liberal persuasion who intend sharply to accelerate the snail's pace of economic reform.

Mr Jiri Dienstbier, another former political prisoner, takes the Foreign Ministry and will wish to turn the country's orientation towards the West.

Mr Calfa said yesterday: "Our country lies in the centre of Europe – a continent which has gone through a long period of peace based on the division of forces.

"Now there are conditions for it to become a common home for all states and nationalities."

He added, however, it would respect all international commitments – which includes the Warsaw Pact defence community and the Comecon economic bloc.

Of the three sensitive ministries of the Interior, Foreign Affairs and Defence only the last will remain in Communist hands, those of Mr Miroslav Vacek.

In all, the Cabinet contains 10 Communists. But two of them, Mr Komarek and Mr Dlouhy, are closer to the Civic Forum than to any other political force.

The Socialist and Peoples' Party have two cabinet members of which one each is a Deputy Prime Minister – and there are seven independents, including one woman, Ms Kvetoslava Korinkova, head of the Peoples' Control Commission.

In addition, Mr Miroslav Kusy, another dissident, has been named head of the Federal Office of Press and Information – not a Cabinet post, though it may become one.

It is likely that new ministries will be created – including one dealing with the Environment – while others will be restructured.

A new president must be elected within the next two weeks, by the Federal Assembly, which meets tomorrow.

Mr Havel, Mr Ladislav Adamec, the former Prime Minister who resigned last week after failing to form an acceptable government, and Mr Alexandr Dubcek the former Communist party leader deposed by the Soviet led invasion in 1968, have all been mooted for the job – but intensive discussions have so far failed to produce a consensus.

It is understood Mr Havel has full Opposition support and as leader of the movement which has caused this rapid tr ansformation of Czech politics, he stands the best chance.


One-time dissident Vaclev Havel addresses a packed Wenceslas Square to announce the names of Czechoslovakia's first non-communist dominated Government since 1948

Four Allied powers to hold talks on German air links

By Leslie Colitt in Berlin

THE four Second World War Allies, in a remarkable display of unity, are to hold a formal meeting in West Berlin today to discuss the growing pressure for closer ties, including air transport links, between East and West Germany.

The meeting between the ambassadors to West Germany of the US, Britain and France, and the Soviet ambassador to East Germany, will be the first of its kind since 1971, when the Berlin Agreement, which lays down the city's current regime, was negotiated.

The most immediate question facing the talks, to be held at the Allied Control Authority, will be that of commercial air transport for which the war victors retain responsibility in a leftover from 1945.

But, equally important, the meeting is intended to demonstrate that the wartime Allies still have a word to say in the future of the two German states.

Both Bonn and East Berlin aim to greatly expand their air links but must gain approval by the Allies. West German officials have criticised the exclusive use by Western Allied aircraft of the air corridors as an anachronism.

The West German airline Lufthansa and East Germany's Interflug recently agreed flights linking Frankfurt, Hamburg, Düsseldorf and Munich with Leipzig and Dresden.

But Allied control of inter-German air traffic means the two carriers are forced to fly a circuitous route via the Baltic Sea and Czechoslovakia to reach their destinations. Lufthansa is also anxious to fly to Berlin where the airline had its pre-war headquarters at Tempelhof airport. But Berlin has been barred to it until now by the sole use of the air corridors by airliners of the four Allies.

The Four Powers are also expected to discuss the proposal to hold the Olympic Games in East and West Berlin in 2004.

● David Goodhart writes: Mr Hans Modrow, East German Prime Minister, told nearly 300 of the country's top businessmen at the weekend that greater independence for them and their companies was a key element of economic reform.

However, he also painted a
Continued on Page 16
Eastern Europe, Page 2; US view on German unity, Page 4

Gorbachev bolsters party position

By Quentin Peel in Moscow

MR MIKHAIL Gorbachev, the Soviet leader, moved swiftly this weekend to bolster his position in the Communist Party, in the face of a growing backlash by conservatives.

He assumed a new key post as head of what could well become a new Russian Communist Party, within the overall structure of the Soviet Communist Party.

The move appeared to be aimed at heading off the almost certain election of a far more conservative figure who could have eventually threatened his position as General Secretary.

It was the most important outcome of a stormy meeting of the Communist Party central committee, which saw a string of conservative speeches and attacks on weak leadership from the Politburo.

The Soviet leader will add to his already sweeping powers the job of secretary of a special Bureau in the Central Committee apparatus for Communist Party affairs in the Russian federation. Russia has hitherto had no separate party organisation, but simply dominated the Union party.

The devolution of power from the centre and the growing demands of the non-Russian republics, have made the creation of purely Russian institutions urgent, not least to answer the demands of Russian nationalists.

The rest of the Bureau is dominated by more conservative figures, like Mr Boris Gidaspov, the leader of the Leningrad city and regional parties, Mr Vitaly Vorotnikov, the president of the Russian Supreme Soviet, Mr Yuri Prokofiev, the Moscow party chief, and Mr Valentin Chikin, editor-in-chief of Sovietskaya Rossiya newspaper.

Mr Gidaspov has been critical of the party leadership, presiding over a rally in Leningrad two weeks ago which heard speeches denouncing the "betrayal of the 1917 revolution."

Despite the inner-party criticism, Mr Gorbachev insisted perestroika must accelerate, particularly in economic reform. He also welcomed the "positive changes" in Eastern Europe.

He refused, however, to give in to radical demands for the "leading role" of the Communist Party itself to be debated and amended in the Congress of People's Deputies – the country's supreme legislative body – next week.

He also rejected calls for new laws on property, land, devolution of power to the provinces, and taxation, to be urgently decided by the Congress.

And Mr Gorbachev sharply attacked radical deputies, including Dr Andrei Sakharov, who have called for a two-hour token strike today to urge those demands.

Full details of the plenum have yet to emerge, but from first reports, and the list of speakers, it is clear that Mr Gorbachev faced a concerted conservative onslaught on the confusion wrought by economic and political reform, and the disarray in the ruling party.
Continued on Page 16

IMF chief seeks to clinch Polish economic pact

BOTH Poland and the IMF hope that a letter of intent on an economic rescue plan for the country can be in place by the end of the week, writes Christopher Bobinski from Warsaw.

Mr Michael Camdessus, IMF director-general, is in Poland for a final round of talks on an adjustment programme that will form the basis of the rescue plan.

Agreement would open the way for a $300m bridging loan for Poland to be paid in advance of projected IMF stand-by credits worth up to $700m. Agreement is also crucial for the $1.67bn worth of loans suggested by the World Bank for disbursement during the next 18 months.
Full report, Page 2

West German objections put EC banking directive at risk

By Lucy Kellaway in Strasbourg

THE European Community's recently agreed draft legislation for the banking sector, drawn up after lengthy negotiations, could be threatened by a last-minute objection from West Germany to minimum capital requirements for banks.

The West German withdrawal of support after the legislation had been agreed in principle – an exceptionally rare move – undermines an essential part of the EC's plans for a single market in 1992. The banking legislation sets conditions for European banks to operate in any member states.

Member states had agreed unanimously during the summer on a bank solvency directive and the related second banking directive. Both measures were set to be adopted finally by ministers this month. If West Germany cannot be brought into line by January 22, when the legislative timetable runs out, the two draft directives will lapse.

West Germany objects that the solvency directive does not give its mortgage institutions the same special treatment – lower capital requirements – granted to similar national institutions in other countries.

In particular, it wants less onerous capital requirements to apply to mortgage lending on commercial and office buildings, and wants these to last until 2001, five years longer than under the draft directive.

Pressure was brought to bear on West Germany at the Strasbourg summit and officials were hopeful that a compromise could be reached.

The other 11 member states are viewing the matter with concern, and the communiqué from Strasbourg made explicit reference to the solvency directive as one of the most urgent areas for attention in the single market legislation.

Although the banking legislation could in theory be passed by a majority of member states, in practice it needs unanimous approval due to a quirk in Brussels procedure that covers measures on which the 12 and the European Commission are not in agreement.

● EC leaders also called over the weekend for faster progress on the taxation of savings, and on measures to stop tax evasion once capital markets have been liberalised.

The 12 made a further commitment over the weekend to bringing their rates of valne added tax closer together – an issue which has until now been kept towards the bottom of the list, due to the problems in resolving it.

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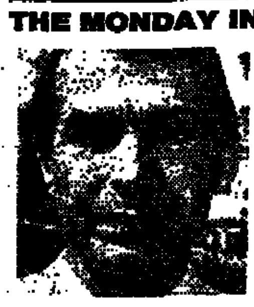
THE MONDAY INTERVIEW



UK Member of Parliament Frank Field "deeply resents" charges that he is a maverick MP, out of touch with mainstream Labour Party thinking. Nevertheless, his political future has been threatened by a key decision announced last week.
Page 38

Gorbachev stresses Soviet non-interference

By Quentin Peel in Moscow

IN THE face of profound concern by Soviet Communist Party loyalists at the pace of change in Eastern Europe, President Mikhail Gorbachev at the weekend came out with his most positive assertion yet of non-interference by Moscow, and even a welcome for the whole direction of change.

Only on East Germany did he issue a clear warning to the West in general, and West Germany in particular, against any attempt to intervene in the process of reform.

"We firmly declare that we will see to it that no harm comes to the GDR," he told a stormy meeting of the Soviet Communist Party central committee on Saturday.

However, his speech was far more remarkable for its positive assessment of the process of change, and his undisguised enthusiasm for the revival of co-operation with both Western Europe and the US, than it was for the one negative note of warning.

He declared that the changes in the socialist states were "the result of internal development, the result of choice by the peoples themselves". Moreover, "they proceed in the same mainstream as our perestroika, although we in no way encouraged these processes."

He blandly referred to the loss of power by the Communist Party among the Soviet Union's leading allies. "In some socialist countries, the situation has been unconventional," he declared. "Fraternal parties are no longer ruling in Poland and Hungary. Our friends in the German Democratic Republic and Czechoslovakia have largely lost their positions. New political forces have emerged on the arena."

Then he went on to insist that it was up to the Communist Parties concerned ("our friends") to reassert their own influence, by learning "to master on the move the science of political work in the new conditions of real, rather than merely declarative, pluralism".

As for the Soviet Communist Party, it must learn to live with the new political forces emerging.

He said that the Warsaw Pact must change to come to terms with the new realities of Eastern Europe – while expressing confidence that all the allies were still loyal to its concept "because the community of our interests in ensuring stability and peace in Europe is maintained".

As for Comecon, the Eastern bloc's trading organisation, "radical changes in the mechanism of co-operation are needed," he said. Without them "it is inconceivable to accomplish one of the main tasks of the present day – to integrate gradually the economies of our countries into the all-European and world structures."

The one lesson Mr Gorbachev was not prepared to draw, however, was that the Soviet Communist Party's own "leading role" in society should be immediately repealed although he did not rule out a change in terms of the wholesale rewriting of the Soviet constitution.

The Soviet leader, who clearly faced strong criticism from rank-and-file members of the central committee for the upheaval being caused by perestroika, sought to show more clearly than ever how his foreign policy was transforming the international situation to Soviet advantage.

He praised the understanding he had received from West European leaders, and from President George Bush of the US, on the need for "a well-considered and cautious line in the conditions of deep processes taking place in western and eastern Europe".

In particular he singled out the support of President François Mitterrand of France over German reunification.

IMF chief seeks to clinch Polish accord

By Christopher Bobinski in Warsaw

MR Michel Camdessus, director-general of the International Monetary Fund, has arrived in Poland for a final round of talks on an economic adjustment programme that will form the basis of a plan to rescue the country's stricken economy.

Both sides hope that a letter of intent on the programme can be in place by the end of this week, thereby opening the way for a $300m (£190m) bridging loan for Poland to be paid out in advance of projected IMF stand-by credits worth up to $700m.

Agreement with the Fund is also crucial if Poland is to receive a further $1.67bn worth of loans which have been pencilled in by the World Bank for disbursement over the next 18 months and if payments are to be restructured on the $38bn that Warsaw owes Western governments and banks.

On Saturday Mr Janusz Sawicki, a deputy finance minister, admitted that the Government had little room for manoeuvre with the IMF. He was speaking to representatives of small private businesses who were protesting at losing the right to hold hard-currency accounts from January 1.

The IMF is insisting that no exceptions be made to a new "internal convertibility" system under which exporters will be forced to sell all their earnings to state banks for zlotys in return for guarantees that they will be able to buy foreign currency when it is needed at a stable exchange rate.

The Poles still have to whittle down their 1990 government spending plans, which are seen as too generous by the Fund, and agree on an effective way of holding back wages growth in the coming months.

The first weeks of 1990 will see a big price explosion which the IMF wants to have matched by an initial growth in pay followed by a wages freeze designed to squeeze inflation out of the economy.

Preliminary drafts of next year's budget estimate that the cut in real wages next year should reach at least 20 per cent.

The Government, however, sees a wage freeze as near impossible to execute and are opting for a prohibitive tax on wages growth as the best bet for controlling incomes.

IMF-inspired measures are currently being incorporated in next year's draft budget, along with a mass of amendments to existing legislation.

Nemeth says Hungarian election likely next March

By Judy Dempsey in Budapest

EMERGENCY talks between Hungary's government and independent political parties and trade unions, aimed at tackling serious economic problems and filling the political vacuum, were edging yesterday towards a fragile consensus.

Mr Miklos Nemeth, the Prime Minister who tomorrow begins a three-day visit to London, had earlier voiced deep pessimism about prospects for agreement on procedures for next year's free elections and on implementation of austerity measures recommended by the International Monetary Fund.

But Mr Nemeth said last night that there was broad agreement at least on the date of parliamentary elections which would probably be held in March.

An austerity budget to be considered by Parliament on December 18 has been described by the IMF, whose officials met Hungarian representatives last week, as a good foundation on which to complete negotiations for the unblocking of a $350m credit whose final tranche the Fund has frozen.

Mr Nemeth has spoken of the need for all the country's political forces to take responsibility for hard decisions.

"What we are talking about is the national interest of the country. The economic programme cannot be subordinate to the political interests of any one party," he said.

The political vacuum arose after last month's referendum, in which voters delivered a blow to the Socialist (formerly Communist) Party and a victory to the opposition Free Democrats by approving a delay in next year's presidential elections until after the legislative elections.

The referendum catapulted the Free Democrats, previously considered the second-ranking opposition group, into the limelight and caused confusion in the larger, less radical Democratic Forum, which had called for a boycott of the plebiscite.

The IMF-inspired measures on which Mr Nemeth is seeking consensus include:

● A reduction of next year's budget deficit from the currently projected level of Forints 21bn(£230m) to F10bn.

● Reduction of annual state subsidies from the present level of F210bn to F170bn.

● Reduction of the balance of payments deficit from $1.5bn to $550m.

● A sharp reduction in the Roubles 100m "surplus" in trade with the Soviet Union, aimed at reorienting the country's exports to hard currency markets.

Hungarian exports to the Soviet Union and other Comecon countries will be reduced by 25 per cent. Mr Nemeth has already indicated that this will lead to factory closures.

Apart from unblocking the $350m IMF credit, agreement with the IMF on these measures should also trigger the release of an Ecu 1bn loan from Brussels.

Acceptance of the IMF programme would, Mr Nemeth has said, involve the following measures:

● Lifting the ceiling on interest rates, including deposit accounts.

● Reducing mortgage subsidies on housing, a sensitive issue in a country with an acute housing shortage.

● A rise of unemployment, from its current level of 20,000 to 25,000 to between 50,000 and 100,000.

He insisted, however, that pensioners and young families would be protected. The government, he said would increase its social support from its current F25bn to F40bn.

Hungarian officials seem to be pinning hopes on Chancellor Kohl of West Germany, who visits Budapest this week.

Gregor Gysi after his election as East Germany's Communist Party leader: as a lawyer he has defended dissidents

E German party opts for Jewish lawyer

By Leslie Colitt in East Berlin

DR GREGOR GYSI, the 41-year-old lawyer elected head of the East German Communist Party on Saturday, may be just right for the job. The Socialist Unity (Communist) Party of Germany (SED) is on the brink of political bankruptcy and may soon need a liquidator with his legal talents.

Choosing him to head the SED, until recently one of the most Stalinist of East European parties, is remarkable in itself. The self-deprecating intellectual – the first to head the party – who bears a slight resemblance to a balding Woody Allen, has defended East Germany's leading dissidents. He is the lawyer of Ms Bärbel Bohley, a founder of New Forum, the leading opposition group and is head of the East German lawyer's federation.

Equally noteworthy, Dr Gysi is of Jewish origin which may have helped him gain 95 per cent of the votes of the delegates to the emergency party Congress. The party was not only rejecting its Stalinist origins but going through an agonising self-doubt not unlike the early post-war German reaction to the Nazi era. Unlike members of the discredited Politburo under Mr Erich Honecker, who disguised their Jewish background, Dr Gysi is openly supportive of the tiny Jewish community in East Germany which numbers less than 400 people.

But Dr Gysi sounded like a Western Marxist professor when he warned delegates against capitalist monopolies and transnational companies, sighing frequently and accenting his predicament by nervous laughs.

He made clear that the SED could only survive by following the long-tabooed "third way" of socialism in Germany which was crushed in 1948 by Stalin and his henchman Walter Ulbricht, the first SED leader.

Shedding its Stalinist Politburo and Central Committee, the party has elected an executive board, a chairman (Dr Gysi) and his deputies who include Mr Hans Modrow, the Prime Minister, and Mr Wolfgang Berghofer, the fast-rising mayor of Dresden. Just how far the party has fallen is shown by the fact that either Mr Modrow or Mr Berghofer would have been the logical choices to lead the SED. Instead, the party is now its own worst liability and all attention is being focused on Prime Minister Modrow.

Although the overwhelming majority of the democratically-elected delegates spoke out against dissolving the party, one man from the Neptun Shipyard in Rostock said he was afraid of returning home and telling the "comrades" that all they had was a party with a new name – put off, however, until next week – and programme.

Czechs triumph over their ruling class

By John Lloyd in Prague

AT 2pm yesterday Mr Vaclav Havel stepped out on a balcony before the crowds on Wenceslas Square and told them that in three weeks they had made a "peaceful revolution".

"Events have run at a speed which surprised all of us. Forum has become synonymous with this square – our country has become a square where everyone can say what he thinks."

The organisation of which he became the deserved moral leader can justify such self-congratulation: without so much as throwing a stone, this movement has destroyed the basis of Communist power. Some of its doughtiest fighters now take their place in a government whose first duty, according to Mr Marian Calfa, its Communist Prime Minister, is to prepare for free elections "and an expression of the people's will".

It is not sentimentalism to say that this triumph belongs to the Czechoslovak people, the students in particular. The spontaneity of the movement has been its central feature: as Dr Valtr Komarek, the economist who is now First Deputy Prime Minister charged with economic affairs, put it 10 days ago, it was a nation of 15m against a ruling class of 300,000.

Still, the agreement which ushered in yesterday's government had to be thrashed out and in the new beginning huge questions are begged which will now form the stuff of real politics in Czechoslovakia.

First, the opposition has completely captured economic policy. Dr Komarek, with Mr Vladimir Dlouhy, a deputy Prime Minister in charge of planning, and Mr Vaclav Klaus, the Minister of Finance, are all members of the Prognostik Institute, the officially derided research centre which has urged thoroughgoing market reform. They are all, in varying degrees, free marketeers.

Second, the opposition has effective control of the Interior Ministry – which in turn controls the police and especially the STB, or secret police. Here, the mordant humour which has been a hallmark of the peaceful revolution has flashed out: of the three men – Mr Calfa, Dr Komarek and Dr Jan Carnogursky – who will oversee the ministry, the last-named has particular responsibility for the police; and he should know them well since they spied on him, harassed him and arrested him for his civil rights activism in his native Bratislava.

Foreign policy shows the same leaning towards creative tension. Mr Jiri Dienstbier, the new Foreign Minister, is a former foreign correspondent who served three years in jail.

Most urgent among the blank spots which remain is the presidency. Mr Gustav Husak, who led the Communist Party for much of the post-1968 period, resigned this weekend, appearing on television on Saturday night to make an uncharacteristically straightforward speech. But his successor must be chosen by the Federal Assembly tomorrow : it is a largely unreformed body.

Mr Havel is now a public candidate, but he may not want a mandate from such a body – even if they will stolidly vote for him if told to do so by the Communist Party.

Stasi lose their career security

By David Goodhart in Leipzig

IT IS hard not to feel a little sorry for Mr Wolfgang Zemmrich, one of the few losers in the East German revolution.

After a lifetime spent rooting out class enemies, Mr Zemmrich – a junior official in the hated "Stasi" security police – has suddenly become one, and is quite bewildered.

"We feel up in the air at the moment," he said at the weekend. Along with a few colleagues he was locked inside the Stasi office in the small (and aptly named) town of Grimma 30km south-east of smog-ridden Leipzig.

It is still not clear whether the state security service, now renamed the Office of National Security, will be disbanded completely or merely slimmed down and given new tasks.

In either case most of the 40 people who used to work in the Grimma office keeping an eye on about 50,000 citizens will have to find new jobs.

According to Mr Zemmrich that is easier said than done.

He and some colleagues have already applied to several local companies and been turned away. He hopes that there might still be a role for the Stasi in observing the neo-Nazis which the authorities have now begun to admit exist.

He protests that he is suffering for the crimes of others and says the Grimma office was mainly involved in stopping "economic crimes", adding "we didn't really have any dissidents here". My young East German companion observed, later, that Mr Zemmrich is probably just old enough to be denying all responsibility for his actions for the second time in his life.

In the office where we spoke stood the Stasi files and a large safe which had been sealed by the local state prosecutor on December 6 to stop destruction of records. The office is now in the charge of the ordinary Volkspolizei.

Outside the giant Stasi office in Leipzig, where at least 2,000 people used to work, there is a standing guard of half a dozen policemen to ensure that angry citizens are not tempted to try mob justice.

Inside the building is a "citizen's committee" working through the files but nobody doubts that the most incriminating have already been destroyed. At the weekend several sets of letters which never reached their destination, presumably because of subversive content, were discovered in one of the rooms.

Although isolated attacks on Stasi property have been reported there is no evidence of a slide into chaos which some politicians fear as a consequence of the current power vacuum in the country.

But rumours abound. The authorities had to deny at the weekend a story that several foreigners have been shot dead in Leipzig and Karl Marx Stadt.

According to another rumour Russian troops have been placed on full alert. In Grimma – where there is a large Russian garrison – the soldiers in the streets, laden with Christmas presents, denied they were at the ready.

Ordinary citizens do, however, seem fearful of political conflict – a fear which may simply reflect their lack of experience of any public, peaceful, political debate. Mrs Gelinda Dammegger, a 49-year-old Leipziger, says, for example, that the atmosphere at the weekly Leipzig marches have become harsher and she now fears clashes between pro- and anti-reunification supporters. She, like most East Germans, finds herself slipping somewhere between the two groups.

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THE STRASBOURG SUMMIT

EC sets a course for economic and monetary union

David Buchan and Ian Davidson examine the likely timetable

THE weekend saw the widely predicted launch of the Community ship into the unpredictable waters of economic and monetary union (Emu).

There was some last-minute skirmishing on the bridge between Chancellor Helmut Kohl and President François Mitterrand. But when the former conceded – even before the Strasbourg summit opened for business – that starting the Inter-Governmental Conference (IGC) on monetary union after the German elections late next year would do him no electoral harm, most of the tension went out of the summit.

Journalistic interest held up, because of the possibility of a double-barrelled blast by Mrs Margaret Thatcher against treaty revisions to create Emu and against the Social Charter, and of a horse-trade on German reunification and Emu. Neither materialised and Mrs Thatcher ceded quietly.

In a bare two hours of discussion about Emu, few issues of substance were raised, let alone clarified. Chancellor Kohl, for instance, made it clear he wanted to see the European Parliament's powers increased, in the context of Emu and ready for Parliamentary elections in 1994, but he didn't say how much.

The timing of the IGC is now clear in broad outline:

● Preparatory work (mandated to be "full and adequate" by last June's Madrid summit) will continue next year. By April the Brussels Commission will produce a report that will assess the benefits of Emu, as its 1988 Cecchini report estimated the impact of the single market programme, and maybe take into account any alternative plans for Emu such as that already tabled by the UK.

The Dublin summit of late June will take stock, mainly of the Community's readiness to meet its commitment to start a first stage move to closer monetary cooperation on July.

● The IGC itself will open in Roman fanfare under the presidency of Italy at the very end of next year. It will then follow the Single European Act pattern, line-by-line arguments about setting up a European central bank, knitting economic policies together, and creating democratic control will move to weekly meetings of diplomats in Brussels and monthly reviews by ministers.

● The next landmark, Mr Kohl suggested, would be the late 1991 summit hosted by the Dutch, at which EC leaders could review progress on both Emu and the working of the Delors plan's first stage of closer monetary co-operation. Mrs Thatcher has undertaken to put sterling into the European Monetary System's parity grid sometime during this first stage which she supports.

● No guillotine date has been set for wrapping up an Emu-creating treaty. Mr Mitterrand said he hoped that everything would be finished by the end of 1992 (target for achieving the single EC market), but the time needed to get a treaty ratified by 12 national parliaments meant that a closing date nearer the mid-1994 European Parliament elections could not be ruled out.

However, another possibility raised by the French leader is that the IGC might deal first with Emu and then with its implications for the Parliament, rather than in parallel.

Parliamentary leaders served notice on Strasbourg summiteers that they want an even bigger increase in powers than they got in the Single European Act, a demand which will be backed by Germany and Italy and opposed by Mrs Thatcher. "In the House of Commons there is more effective democratic accountability than you get in the European Parliament," she said.

The British leader said she would continue to fight her corner for a market approach to Emu, whereby the constraints of the EMS exchange rate mechanism drive countries' monetary policies towards low German inflation.

In apparent new-found enthusiasm for a system from which she has stayed apart for a decade, she said: "The moment (by altering the EMS) you go from the rigid and valuable discipline of the German central bank and people . . . you lose the very thing that helps you get inflation down."

The struggle for Emu will probably be fought over three main issues. First, the question of whether tight interweaving of monetary policies – inevitable with anything approaching a single bank running a single currency – needs parallel strictness in economic policy.

The single most criticised element in the Delors report, still the basic blueprint for Emu, calls for binding rules on the size and funding of countries' budget deficits. But since this was semi-imposed on the Commission president by Mr Karl Otto Pöhl, the Bundesbank president, Mr Delors is ready to throw it overboard.

Second, poorer countries on the Community rim will want more EC money to boost their less productive economies and prevent an otherwise natural drift – in a state of Emu – of jobs and investment to the EC's richer geographic centre.

The final problem is how to make a Euro-bank independent enough to satisfy the Germans but controllable enough by politicians to please the others.

In this welter of issues, Britain may be ambiguously placed. "We could be on the side of those who believe that central banks have to be democratically accountable," said a UK diplomat, "but on the side of those who feel that economic decisions don't have to be taken at the centre."

Schlüter, left, finds Thatcher in harmonious mood at Strasbourg. Haughey, centre, and Gonzalez follow Mitterrand's line of inquiry

States tackle minefield of reunification

By Robert Mauthner, Diplomatic Correspondent, in Strasbourg

TENSE discussions of the problem of German reunification at the European Community summit produced a joint declaration endorsing Germany unity, but only on carefully-worded conditions.

The declaration said the 12 Community members "seek the strengthening of the state of peace in Europe in which the German people will regain its unity through free self-determination," but it made clear *other important principles* had to be taken into account in the achievement of this objective.

In particular, the process should take place peacefully and democratically and must fully respect "the relevant agreements and treaties" and the principles defined by the Helsinki Final Act of 1975. It should also occur in a context of East-West dialogue and co-operation and "in the perspective" of European integration.

Chancellor Kohl professed himself happy that the objective of German unity has been formally recognised by the European Community leaders, but the text of the declaration is a veritable minefield for those wanting to advance rapidly towards the unification of the two existing German states.

The Helsinki agreement, signed by 35 western and eastern European countries, as well as the US, the Soviet *Union and Canada, recognises* the post-war borders established in Europe.

Moreover, the phrase "relevant agreements and treaties" clearly covers, in the first place, the responsibilities which the four victorious Second World War allies - the US, the Soviet Union, Britain and France - assumed for Berlin, pending the signature of a formal peace treaty with Germany.

What the Community leaders are saying; therefore, is very similar to what US President George Bush and Soviet President Mikhail Gorbachev said at their meeting last week in Malta and what President Mitterrand declared after his talks with Mr Gorbachev in Kiev last week.

The German people should be allowed to decide freely the future of their nation, but they cannot take such a momentous step without reference either *to the legal situation as defined* by international agreements and treaties or the vital interests *of other countries*.

There were times before and during the two-day meeting when disagreements on this sensitive issue between Chancellor Helmut Kohl of West Germany and some of his partners - not least Mr François Mitterrand, the French President and chairman of the conference - threatened completely to dominate the agenda.

France is not alone in believing that the liberalisation of Eastern Europe calls for an acceleration of the Community's internal development, so as to anchor West Germany more firmly to its Western moorings. In spite of all the official denials, therefore, it was plain how a deal could be made.

In return for German agreement to a date for the intergovernmental conference on *economic and monetary union* - albeit very late in 1990 to allow the West German general election to *take* place - *the* French would accept a declaration on German unity which, *in spite of the heavy condition*ality attached to it, broadly meets Mr Kohl's domestic concerns.

The Franco-German alliance has therefore survived. But the general expectation is that it faces more difficult tests in the near future.

Fears of German influx delay pact on open borders

By David Buchan and Lucy Kellaway

WORRIES by four of West Germany's EC partners about the influx of East Germans into the federal republic are likely to see the postponement of the planned signing on Friday of an immigration pact that would abolishing border controls between the five Community states.

According to West German and Dutch ministers at the Strasbourg summit, France in particular has had second thoughts about the implications of removing frontier controls with West Germany at a time when East Germans are freer to take up Bonn's automatic offer of passports to citizens of East Germany.

A month ago the five "Schengen" *states* – France, West Germany and the Benelux countries – announced *they had reached agreement on* police co-operation and immigration policy which would *allow them within a year or so* to create a frontier-free travel zone between them. Formal signature of the agreement was to come this Friday in the Luxembourg village of Schengen, where the five originally undertook back in 1985 to abolish border checks on travellers.

Another last-minute hitch with the Schengen agreement is a move by Luxembourg's partners to get the duchy to lift bank secrecy where tax evasion is suspected. This has been a long-running bone of contention between Luxembourg and immediate EC neighbours like France.

Removing border checks for travellers figured prominently in the Strasbourg summit communiqué, which declared that work on it should be "accelerated so that progress towards the free movement of persons can keep pace with that achieved on the free movement of goods, services and capital" within the 1922 programme.

To this end, EC leaders called *for* "inventories" to be made of the Twelve's individual positions on immigration and *asylum, for discussion of* the issues by EC foreign ministers, and for agreements to be reached by the end of 1990.

At the insistence of Mr Ruud Lubbers, the Dutch prime minister, the summit called for any new forms of police co-operation to "first ensure the protection of individuals with regard to the use of personal data banks".

Bush's China initiative under fire

By Lionel Barber in Washington

PRESIDENT George Bush faces a wave of domestic criticism after sending two senior US envoys to China in a mission aimed at restoring relations with the Peking government.

The surprise weekend visit formally ended the administration's six-month ban on high-level contacts with China imposed after soldiers massacred hundreds of pro-democracy demonstrators in Tiananmen Square last June.

General Brent Scowcroft, Mr Bush's national security adviser who led the mission, met a pleased Chinese leadership and relayed the president's desire to bring "new impetus and vigour" into Sino-US relations.

Yesterday, as congressional criticism of the mission began to grow, Mr James Baker, US Secretary of State, responded in a television interview by stressing the US had a vital national interest to maintain its "strategic" relationship with China.

He said the Bush administration deplored the events in Tiananmen Square, but "we don't want to compound that tragedy by isolating China in the international community." He said the US relationship was based on China's geo-strategic, geopolitical importance "and we want to find ways to preserve it".

The official explanation in Washington was that the Scowcroft mission was intended to brief the Chinese leadership on the Malta summit between Mr Bush and President Gorbachev. But Mr Baker's comments – coupled with Mr Bush's own interest in China as a former US ambassador to Peking – indicate that something more ambitious is at hand.

Mr Baker said Mr Scowcroft – who was accompanied by Mr Lawrence Eagleburger, deputy US Secretary of State – discussed a wide range of issues, including the question of Mr Fang Lizhi, a dissident who has been given shelter along with his wife in the US embassy in Peking.

Mr Bush has been at odds with Congress ever since he refused to bow to pressure for economic sanctions against China after the massacre, but he now appears determined to ride out the criticism.

Yesterday, Congressman Stephen Solarz, the influential New York Democrat, said the President was "kow-towing" to the Chinese without receiving any concrete concessions such as improvements in human rights.

Congresswoman Nancy Pelosi, a California Democrat, said: "The night flight to Peking makes everything we've said about our disgust and revulsion at the Chinese government only empty words."

Baker to give US views on German unity

By Lionel Barber

MR James Baker, US Secretary of State, is due to give a major policy address in West Berlin tomorrow which will outline US views on German reunification and the future Europe.

On the eve of his departure for talks in London, Bonn and Brussels, Mr Baker said that the US supported "step by step" moves toward German reunification "so that it can happen peacefully". He cautioned that too rapid a move could antagonise an already sensitive Soviet Union.

Mr Baker's visit to Europe comes amid signs of strain within the alliance over European economic integration and German reunification. His trip aims to bind the allies together at a time of rapid change, to ensure that the US is fully briefed on the Strasbourg summit, and to help to co-ordinate Western Europe's efforts to provide economic assistance to Eastern Europe, notably Poland and Hungary.

In a TV interview yesterday, Mr Baker reiterated the administration's commitment to maintaining a strong US military presence in Europe. He said "not one single" European country wanted US forces to withdraw from Europe, not even the Soviet Union.

President Mikhail Gorbachev made this point clear during his meeting in Malta with President George Bush, he said.

Separately, and in a further sign of US policy shifting as a result of the reforms in Eastern Europe, Mr Baker said it was time to overhaul the CoCom regime restricting the transfer of Western technology to the Soviet bloc.

He did not favour relaxing rules on "strategic" technology which could have a military application, but he said it was time to simplify procedures – particularly when East bloc countries could obtain the same technology "off the shelf" from other countries.

Manila rebels unworried by Aquino's warnings

By Roger Matthews in Manila

REBEL military officers and opposition politicians accused of being implicated in the latest Philippines coup attempt showed no sign yesterday of being cowed by the stated determination of President Corazon Aquino to root out and punish those responsible.

Following the surrender on Saturday of the last rebel stronghold at the airbase at Cebu, a statement purportedly from the dissident leaders claimed that the real victory was theirs and Mrs Aquino had survived only because of US military intervention. While the rebels were outraged, they said, by the US intervention, they wished to remain on good terms with Washington.

The 400 rebels at Cebu were allowed to leave the base fully armed and later returned to their barracks. Despite being surrounded by loyal forces, several rebel officers are reported to have escaped.

Sources suggest that more than 1,500 troops who took part in the rebellion in Manila may also have evaded capture. Government officials say a full-scale search has been launched.

Meanwhile, Senator Juan Ponce Enrile hit back angrily at accusations that he was involved in the coup attempt. He said that by asking for his resignation from the Senate and for that of vice-president Salvador Laurel, Mrs Aquino was trying to eliminate all opposition.

Brazilian socialist narrows gap

By Ivo Dawnay in Rio de Janeiro

BRAZIL'S presidential election looked on course for a photo finish yesterday as opinion polls showed the gap continuing to narrow between the centre-right front runner, Mr Fernando Collor de Mello, and his socialist rival, Mr Luis Inacio Lula da Silva.

A Gallup poll published yesterday – a week before the final ballot – showed just six points between the candidates with Mr Collor on 48 per cent and Lula, as he is known, on 42 per cent. The findings match those of other polling organisations, which have shown a steady improvement by the former trade union militant in all regions of the country.

Mr Collor's campaign organisers are showing signs of nervousness. Yesterday, the candidate sacked his TV production company and cancelled all engagements to revamp his remaining broadcasts.

France rules out Comoros intervention

By William Dawkins in Paris

FRANCE sent a naval patrol to the troubled Comoros archipelago in the Indian Ocean over the weekend, but ruled out military intervention in its former territory, despite the refusal of the mercenaries holding the islands to leave.

Defence Ministry officials said there was "no question of a French military intervention," a stance sharply criticised by Comoros citizens and sympathisers resident in France who staged demonstrations in Paris and Marseilles on Saturday, calling for the Government to send in troops. Mr Ahmed Abdallah, President of the Comoros, was killed two weeks ago by mercenaries led by Mr Bob Denard, head of the presidential guard.

Four French naval vessels are on patrol round Grand Comore, the main island, while 100 parachutists arrived at the nearby island of Mayotte over the weekend to join the 500 Foreign Legion troops already based there.

£10bn Venezuelan investment

Venezuela's national oil company, Petroleos de Venezuela (PDVSA), will make investments of \$15.8bn (£10bn) between 1990 and 1995, according to its president, Mr Juan Chacin, writes Joseph Mann in Caracas.

Of the total, 68 per cent will go to the oil and gas sector, while 25 per cent will be assigned to Petrochemicals, 4 per cent to coal and 3 per cent to fertilisers for Venezuelan agriculture. The investments are aimed at continuing the process of making PDVSA a more flexible and diversified international energy company.

Kashmir kidnap deal

The Kashmir government has agreed to release five detained militants in exchange for the freedom of the Indian Interior Minister's kidnapped daughter, a senior official said yesterday, Reuter reports from Srinagar.

The official, who declined to be identified, said intermediaries trying to free Rubia Sayeed, 23, had been told the government of the north Indian state would bow to the main demand of separatists who kidnapped her and free the militants.

Death in HK refugee camp

A 25-year-old man was beaten to death with iron bars yesterday as tension rose in Hong Kong's crowded Vietnamese boat people camps on fears of an imminent start to forced repatriation, Reuter reports from Hong Kong.

Police said the man was killed and three youths were injured as two gangs battled with iron bars at Whitehead Camp in Hong Kong's New Territories.

Workers in the camps, where some 57,000 boat people are held, say morale is deteriorating daily as people hear reports of plans to return most of them forcibly to the land they risked death to leave.

Mubarak criticises Shamir

Egyptian President Hosni Mubarak on Saturday criticised Israeli Prime Minister Yitzhak Shamir for saying a Palestinian state already existed in Jordan, and warned against obstructing the Middle East peace process, AP reports from Cairo.

Egypt's Middle East News Agency reported Mr Mubarak's comments in response to reporters' questions when he arrived from a brief visit to the Jordanian capital, Amman, and a meeting with King Hussein.

Referendum for Chad

Voters lined up before dawn yesterday to participate in the first national election in 20 years in the war-torn former French colony of Chad, AP reports from N'Djamena.

Although official results are not likely to be issued until late in the week, an overwhelming "yes" vote was expected to the referendum's single question, which would approve a new constitution and also give President Hissene Habre a new seven-year term in office.

US truck sales decline

US heavy truck sales slumped in November, according to figures from the Motor Vehicle Manufacturers' Association, Anthony Harris reports. Total truck sales were 8.3 per cent down on 1988 levels, but sales of light trucks, including the fast-growing off-road and recreational vans, were only 2 per cent down in a generally weak market. Sales of the heavier trucks used in commerce, on the other hand, were down nearly 17 per cent from the same month last year.

BAe in talks on selling 146 jet to SE Asia market

By Paul Betts, Aerospace Correspondent, in Bangkok

BRITISH Aerospace (BAe) is involved in negotiations in Thailand to establish a bridgehead for its slow-selling BAe 146 regional jetliner in the growing South-East Asian airline market.

The British group is pressing Thai Airways to purchase five BAe 146 four-engine jets worth a total of about $120m (£76m) which the national Thai airline has taken on a 2½-year lease.

BAe has already supplied four of the five jets to Thai Airways. The airline is operating the 80-100 seat, four-engine jets on domestic routes, taking advantage of the 146's short take-off and landing capabilities to open up jet services in remote northern parts of the country.

To persuade Thai to select the 146, BAe offered to lease the five aircraft for 2½ years at a cost of about $200,000 a month per aircraft to Thai, explained Captain Ataya Watanapongse, vice president of Thai's domestic flight operations.

However, he said BAe was now pressing Thai to convert the leases into purchase agreements, but Thai was still reviewing its options.

The sale of the five jetliners would secure a firm foothold for BAe in Thailand and in the South-East Asian market. BAe marketing officials said they were also negotiating the sale of the 146 aircraft to Taiwan. Other Thai airline sources said BAe was also negotiating with Tradewinds, the charter subsidiary of Singapore Airlines.

BAe sees South-East Asia and its growing airline industry as offering strong potential for its 146 family of jets, which can operate from difficult airfields. However, BAe is facing tough competition from other manufacturers marketing turboprop or twin-engine jets for regional services in South-East Asia.

Thai has just acquired four Franco-Italian ATR regional turboprop aircraft jointly made by Aérospatiale of France and Aeritalia of Italy. BAe appears to be anxious for Thai to buy the five 146s before its turboprops come into service. Fokker of the Netherlands is also marketing its F-100 twin jet in the region and won an order for 12 F-100 jets from Garuda, the Indonesian airline, last week.

Thai officials said any eventual purchase of the BAe jets would hinge on the concessions the British group made. Although Thai said it was so far generally satisfied with its 146 jets on lease, it indicated it would like to see the power of the aircraft's US Textron Lycoming engines increased.

In high-altitude airfields at temperatures of over 30 degrees Celsius, the stretched version of the 146 currently lacks the power to take off with a full load from a short runway. However, BAe is understood to be studying with Textron an uprated engine for the 146 as well as a new twin-engine version of the aircraft.

The BAe 146 is the British group's most important civil aircraft programme after its participation in the European Airbus consortium. Designed by the former Hawker Siddeley group, it was first launched in 1973 but subsequently placed on ice following the post-1973 oil slump. The programme was re-launched by BAe in 1978 at a cost of £250m.

Until recently, the aircraft has been a slow seller, with total firm orders of just over 170 aircraft, below a break-even point of about 200 aircraft. However, sales have been picking up, especially in the North American market and for the cargo version of the aircraft.

BAe is also marketing a military transport variant of the 146 and an executive version of the aircraft called the 146 Statesman. The company confirmed it was also trying to interest Thailand in these versions.

IADB to emphasise private sector

By Nancy Dunne in Washington and Barbara Durr in Santiago

THE Inter-American Development Bank is poised for a burst of activity next year with a new emphasis on private sector development.

With about $22.5bn (£14bn) to spend over the next three years, after its seventh resource increase goes into effect next month, the IADB last week gave a preview of one policy shift with the announcement of a $360m loan to promote further development of Chile's capital markets.

All the development banks have been criticised for making cheap credit available to sectors which eventually compete against their counterparts in the industrialised countries. The Chilean programme will provide private-sector loans at above bond-market rates, a scheme designed to ensure that the credit does not become a substitute for appropriate financing available elsewhere.

Bank officials themselves have come to see problems with low-cost credit programmes. In the past, they say, the financing has become concentrated in the hands of relatively few, higher-income borrowers, while at the same time it has undercut the development of home-grown capital markets.

Mr James Conrow, the Bank's executive vice president, in a speech last week said the bank intended to move away from policies which use the financial sector as "just a convenient means for financing investments too small for our direct participation." The attempt will be to provide investment financing "at relatively low cost, not from subsidies but by achieving efficiency in financial institutions."

There is some thinking that the programme, if duplicated in other Latin American countries, will help lure foreign banks back to the region. Bank officials say a programme of this sort can be operated only in a competitive environment, and where that does not exist, foreign banks would be encouraged to participate.

Chile's banking system is highly competitive, including 37 banks, 22 of which are foreign. It is considered once again stable after near-collapse during the country's 1982-83 financial crisis. Despite lower margins because of competition, profits this year are expected to expand by 20 per cent, higher than the 15 per cent originally projected by the Superintendency of Banks and Financial Institutions.

The banking industry's health is largely attributed to Chile's overall economic strength. The country is in its sixth consecutive year of GDP growth, averaging over 5.5 per cent. Gross domestic investment is expected to rise this year to near 20 per cent from less than 10 per cent of GDP in 1983 and 17 per cent in 1987-88.

The unique characteristic of the project is a credit auction system, to be operated by the Corporacion de Fomento de la Produccion (Corfo), the government holding company. Corfo will make medium- and long-term financing available to commercial banks and leasing companies.

Leasing companies, many of them begun by banks, have been included in the programme, because they tend to provide financing for small entrepreneurial enterprises that the more conservative percent institutions will not touch.

The auctions will be held at least every three months, with a base price set, below which bids will not be accepted. The base will be slightly higher than the current prevailing bond market rate.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Oct '89	Sept '89	Aug '89	Oct '88
UK (£bn)	exports	8.052	8.423	7.507	6.728
	imports	9.897	10.342	9.751	9.455
	balance	−1.844	−1.918	−2.244	−2.727
Japan (US$bn)	exports	21.822	22.551	22.896	22.981
	imports	16.096	16.504	16.565	13.559
	balance	+5.726	+6.047	+6.331	+9.422
		Sept '89	Aug '89	July '89	Sept '88
US ($bn)	exports	31.136	30.562	30.468	27.578
	imports	39.079	40.662	38.709	36.750
	balance	−7.943	−10.101	−8.241	−9.172
W Germany (DMbn)	exports	53.70	55.80	54.20	46.30
	imports	41.80	42.40	42.30	36.10
	balance	+11.90	+13.40	+11.90	+10.20
France (FFrbn)	exports	95.431	94.228	91.574	89.826
	imports	94.227	103.546	99.057	89.579
	balance	+2.204	−9.318	−7.483	−0.247

Untangling Europe's telecommunications networks

Hugo Dixon looks at a surprise deal between the European Commission and EC member states

THE fragmentation of Europe's telecommunications markets has long been seen as one of the main factors preventing European business from competing effectively in world markets. Different countries' networks do not connect properly, the development of advanced services is stifled by red tape, and communication across frontiers is deterred by excessively high phone prices.

So the surprise deal between the European Commission and Community countries last Thursday on how Europe's Ecu75bn (£54bn) a year telecommunications markets should be freed up is likely to be welcomed by users across the Community.

The effect of the agreement is that there will be free competition in providing advanced telecommunications services, such as electronic mail and access to computer data bases, from the middle of next year. From the beginning of 1993, competition will be extended to cover basic data communications. At present, in some member states, these services are the preserve of public-sector monopolies.

Although data communications accounts for only about 10 per cent of the total telecommunications market, it is growing at around 25 per cent a year. Competitive supply is considered to be essential if data communications services are to achieve their full potential, because they often need to be tailored to individual needs – something monopoly operators have not traditionally been particularly good at.

More radical options for freeing up Europe's markets – such as allowing private companies to compete with the public operators in constructing networks and in providing the basic voice service – was never on the agenda. Each country will work out its own policy on these matters.

The final deal was a compromise. In the liberal camp were the European Commission, West Germany, the UK, Denmark and the Netherlands. The majority of member states – led by France, currently president of the Council of Ministers – took a more conservative line.

Although both sides moved in their anxiety to reach an agreement, the details of the compromise leave the essential elements of the Commission's programme intact.

Two separate but linked directives were under discussion: one liberalising telecommunications services; the other, known as Open Network Provision (ONP), seeking to harmonise their provision across the Community.

The main controversy on the services directive was whether private companies should be able to compete with the public operators in providing basic data services. The French-led majority originally wanted to retain monopolies over these services. Then, they proposed that private companies should be allowed to compete, but only if they obeyed strict licensing conditions.

The French were worried that private operators would skim off the most profitable business, leaving the public operators with the responsibility of supplying loss-making rural areas. They therefore proposed that each country should be able to impose licences that would prevent such "cream-skimming".

This idea proved unacceptable to the Commission and the liberal member states, because they were worried that licence conditions might be rigged in such a way that competition never developed.

The compromise finally adopted allows countries to draw up licensing conditions, but says these must be vetted by the Commission to make sure they conform with the competition provisions of the Treaty of Rome. Any such conditions must be transparent and non-discriminatory.

Competition on data communications will take effect from January 1993. However, member states with underdeveloped infrastructures will be able to ask the Commission for an extension of their monopolies until 1996. This provision is expected to apply only to the poorest countries – Spain, Portugal and Greece.

Agreement on the sister ONP directive initially proved difficult, because member states had different views about what it was to achieve.

The liberal minority saw it as a means for ensuring that private service providers could get access to the networks which, in most countries, will still be public monopolies.

The conservative majority saw ONP as a means of harmonising services across the Community. They wanted to make sure that networks connected properly, that users could get the same standard of service in any country and that tariff principles would be uniform.

However, the UK and West Germany feared that harmonisation would be used as a back-door way of stopping competition. If private operators had to obey a whole series of complicated conditions, they would not even bother to enter the market.

The compromise envisages making ONP voluntary rather than compulsory, although the Commission has a reserve power to enforce ONP conditions if it believes the voluntary approach is not leading to a proper connection between the Community's networks. In such a case, however, it is required to take only the minimum step necessary to achieve its purpose – a provision which will probably mean that ONP is not imposed on private operators, only on public ones.

ONP is a framework directive, which will be followed by a series of specific directives on individual services. There was controversy over which services it should cover: the liberal group thought it should apply only to those areas – such as the phone service and the provision of leased lines – where monopolies will still be allowed; the conservatives wanted ONP to apply other services, such as packet-switched data, which will be open to competition.

The eventual compromise fudges the issue. Priority will be given to drafting specific ONP directives for the phone service and leased lines. As for other services, directives will be examined with a view to adopting them in 1992.

Nevertheless, the deal leaves most of what the Commission was aiming to achieve intact. It was able to get its way, in spite of the fact that it was initially opposed by a majority of the member states, because it threatened to force the directive through even if there was no agreement.

In doing this, the Commission was relying on Article 90.3, a little-used clause in the Treaty of Rome, which it said gave it the right to take unilateral action against public monopolies.

Several member states, including France and Belgium, are expected to challenge the constitutional basis of this decision in the European Court of Justice. That, however, will not affect the content of what was agreed.

Finally, last week's package is probably only the first stage of a campaign to improve the Community's telecommunications services. Further discussion will be needed on whether to introduce competition in the provision of mobile and satellite communications services.

And, at some stage, the Commission may decide to attack the high level of international phone prices within Europe. At present, it costs several times as much to make a call across Europe as it does to call a similar distance in the US.

UK NEWS

Investors to learn share allocation for water sale

By Maggie Urry

THE basis of the allocation of shares in the £5.24bn water privatisation issue will be announced this morning, with 20 different tables being produced to show the amounts of shares investors will receive.

The allocation of shares will vary between the 10 water and sewage businesses of England and Wales, and will also be different for customers and non-customers, with customers' applications being favoured.

It has been decided, however, there will not be a ballot for any of the 10 water companies's shares, and that the minimum applications – for 100 shares – will be met in full.

As final counting of share applications was being concluded yesterday the total number edged up to 2.7m, worth £7bn, making the issue the second most popular privatisation of a public utility after British Gas.

The average investment by individuals was around £2,600 on the 240p a share, fully-paid basis.

Overall, the proportion of the issue available to the small investor was 5.6 times subscribed.

This triggered the "clawback" which takes back shares allocated to overseas and institutional investors to distribute among private investors. After allowing for the clawback the issue was 3 times subscribed.

As a result of the clawback provisions, private investors will receive 47 per cent, institutional investors 39 per cent and overseas investors 14 per cent. With two of the companies – Thames and Severn Trent – possible entrants to the FT-SE 100 share index. Because institutions will receive fewer shares than they had hoped, institutional buying of the water shares is expected to be strong.

At the offices of Schroders, the merchant bank advising the government on the sale, 10 computers spent the weekend working out how applications above the minimum would be scaled down for each water authority.

Demand for each of the 10 companies' shares exceeded the three-times subscribed level, before clawback.

Northumbrian, the smallest of the 10 companies, saw the 65.5m shares it had on offer 17 times subscribed, making it the most popular of the 10 in that sense. Other companies received more applications than Northumbrian, but had more shares on offer.

The varying levels of demand for shares in each of the 10 companies means that applicants will receive larger or smaller allocations. For example, those who applied for shares in Northumbrian will receive fewer shares than those who applied for shares of North West and Severn Trent, which were the least well subscribed.

The consolation for those getting fewer shares because they picked the most subscribed water companies is likely to be a higher share price when dealings start at 9 am tomorrow.

On Friday indications were that all the shares would trade within the 120p to 130p range, compared to the 100p initial payment per share.

Full page advertisements will be taken in national newspapers showing the basis of allocation and the bankers plan to post confirmation to shareholders between December 18 and 20.

Investors may feel nervous of dealing in shares before receiving their letters.

Schroders said yesterday that there had been a surprisingly low error rate in applications, despite the complexity of the issue. Between 1½ and 2 per cent of forms were wrongly completed, meaning that those applicants will receive no shares.

There were thousands of suspicious forms which Price Waterhouse, the firm of auditors, were checking for multiple applications.

Union says engineers offered hours cut

By Michael Smith, Labour Correspondent

UNION leaders said last night that a third engineering company had offered a group of manual workers a two-hour reduction in the working week in response to the national campaign for shorter hours.

Although they would not identify the company, it is understood that the offer has been made by GKN at its Sankey plant in Telford, central England.

GKN is one of four companies which are being threatened with indefinite strikes in the new year unless they follow the example of Rolls-Royce and Smiths Industries in proposing deals which will eventually lead to 37-hour weeks for most manual workers at three plants.

About 2,000 Rolls-Royce employees in Hillington, Scotland, are expected to vote today in favour of ending a six-week strike and accepting a two-hour cut which would be implemented in phases by November 1991 along with productivity improvements.

They would be joining colleagues at NEI-Parsons, a Tyneside subsidiary of Rolls-Royce, who approved a deal four weeks ago, and workers at Smiths Industries' plant in Cheltenham, who will return to work this morning after a four-week strike over working hours.

The unions' hours campaign strategy committee will meet today to consider the latest offer of a two-hour cut.

Mr Bill Jordan, president of the AEU engineering union, said he was cautiously optimistic a deal could be reached.

"It looks OK to me from what we have seen so far but we do give these offers a thorough examination before approving them," he said.

If the offer is approved, and workers accept it, the unions would have achieved the promise of two hour cuts at four factories as well as 35-hour weeks at two small Scottish factories.

The deals or proposed agreements involve less than 10,000 workers. However, both Smiths and Rolls-Royce have indicated they are prepared to similar offers elsewhere.

Announcement of a further deal would put pressure on British Aerospace to opt a more conciliatory stance towards negotiations at three of its plants affected by strikes. The company has offered to open talks on a two hour reduction but only if the strikes are lifted.

● Ambulance union officials are meeting tomorrow to draw up their plan of action for the Christmas period.

They will discuss how best to handle their industrial action over a 6.5% pay offer, during Christmas when crews are traditionally busier due to a rise in accidents.

Businesses to have larger than expected cuts in rates charges

By Richard Evans

MANY businesses in England and Wales are to have larger reductions in their rate bills than anticipated after a government concession on the proposed new uniform business rate to be announced today.

Mr David Hunt, local government minister at the Environment Department is to announce that more generous transitional arrangements are to be permitted to ease the introduction of the UBR, universal business rate, which takes effect in England and Wales next April.

Rates, a property tax, have in the past been levied by local authorities and have varied from region to region.

The UBR is being introduced with the community charge, or poll tax, as part of the complete restructuring of the rating system. The business rate will be collected on a national basis and redistributed to local authorities on a population basis.

The idea is to allow businessmen and industrialists to plan ahead in the knowledge of what their rates will be, and to abandon the present capriciously variable levels of rates imposed by each local authority.

In the first year of operation of the new system, those businesses that benefit will have the limits on their rate reductions increased from 10 to 10½ per cent in the case of large companies and from 15 to 15½ per cent for small companies.

David Hunt: easing UBR

But in the second year, 1991-92 the limits will rise to 13 per cent for big companies and 18 per cent for small, much greater than previously expected. The intention is that similar generous limits will be proposed in later years of the transition period.

In addition, the percentages will be calculated in real terms after the effects of inflation have been taken into account.

The biggest beneficiaries of the UBR, the most significant change in commercial property taxation for decades, will be manufacturing companies in the Midlands and North of England. Rate reductions are expected in these areas totalling around £850m over five years.

Conversely, retailers in the South East, particularly in Inner London, will be very severely affected and balancing transitional arrangements have been proposed for them.

Where the rates bill is set to rise there will be a ceiling of 20 per cent increase plus inflation per year for larger businesses and 15 per cent for smaller. "Small" is classified as a property with a rateable value of £15,000 in London and £10,000 elsewhere.

Businesses will learn only around the end of the year what their new liability will be, when Government valuers will publish the results of an 18 month revaluation exercise.

Environment Department ministers believe that 86 per cent of properties in England and 70 per cent in Wales will qualify for the extended transitional period.

Retail rates, Page 8

BA to hold talks on performance related pay

By Fiona Thompson

THE management of British Airways, the UK's main flag carrier, is to meet union representatives later this week to try to hammer out a deal on the introduction of performance related pay.

British Airways wants to include 700 engineers and hangar and workshop supervisory staff in its performance related pay scheme already in place for top management.

In the past two weeks the company has conducted a series of consultative meetings, addressing staff in groups of 50 to explain the job evaluation system which would be used to judge performance.

The engineers and supervisors are concerned that under the new scheme, overtime and "individual authorisation" payments would cease, according to Mr Paul Talbot, national officer for civil air transport of MSF, the general technical union which represents most of those affected.

The authorisation payments, where an individual is authorised to work on certain aircraft, can be worth up to £5,000 to £6,000 a year, he said.

Mr Alistair Cumming, BA's Director of Engineering, has said the company needs to move to a system of individually tailored performance for technical jobs. The new system would allow much greater flexibility between different jobs.

The issue has hampered the annual pay talks because management want approval for the introduction of performance related pay from January 1, 1991 before agreeing to implement a 9.5 per cent increase from November 1 this year.

All the other bargaining units at BA have been offered a two-year deal in two stages: 9.5 per cent from November and from January 1991 a rise equivalent to the prevailing inflation rate plus 1.5 per cent.

But the engineers and supervisors have been offered just a one year 9.5 per cent deal then the introduction of performance related pay in 1991.

Mr Talbot said he hoped that at the meeting this Thursday, management would have some proposals to address the engineers' and supervisors' concerns about the loss of overtime and authorisation payments.

He said he would be pressing management to release the 9.5 per cent offered from November 1.

UK NEWS

Banks are tipped to dominate life market

By Eric Short

THE UK life assurance industry will probably be dominated by banks and building societies by the mid 1990s, predicts Mr Chris Pountain, insurance analyst at Morgan Stanley International, the banking group.

In his latest insurance survey, Mr Pountain says he believes that the life assurance industry is in the early stages of far-reaching and irreversible change.

He feels that the nature of the operators in the field will radically change over the next few years and many of the dominant players in the mid 1990s will be institutions, such as banks and building societies, which are not now regarded as life assurance providers.

Mr Pountain argues that for life assurers to operate successfully in the next decade, they must have three attributes – adequate capital, expertise in life assurance and, most important, full control over distribution. He says that few existing life assurers have all those attributes.

The banks and building societies have full control over their distribution and adequate capital and they can acquire or buy in expertise. As such, Mr Pountain considers them well placed to become leading operators in the life assurance industry.

The present life companies, while having the expertise, have neither adequate capital or full control over their distribution channels.

Many mutual and some proprietary life companies rely on independent intermediaries for much of their business, a marketing channel over which they have no control.

In reviewing the strengths of the present leading life companies, Mr Pountain considers that only Prudential Corporation, with its sales force of more than 9,000, fulfills the three necessary requisites.

He is sceptical whether Legal & General has full control over its tied agents – a situation which will be tested when the tied agreements come up for renewal over the next three years.

MPs may seek evidence from Young on Rover deal

By Charles Leadbeater, Industrial Editor

THE Government and British Aerospace will come under increasing pressure this week to disclose whether their final agreement on last year's privatisation of the Rover Group included secret inducements to BAe over and above the £38m admitted so far.

The Commons Public Accounts Committee is expected to broaden its inquiry today by taking the unusual step of calling on a former minister – Lord Young, the Trade and Industry Secretary at the time of the sale – to give evidence on the affair.

The Trade and Industry Select Committee is considering opening a separate inquiry, while, on Wednesday, Mr Nicholas Ridley, the Trade and Industry Secretary, will answer questions on the affair tabled by Mr Gordon Brown, Labour's industry spokesman.

The inquiries are likely to *focus on what the DTI and the* company agreed during the final days of negotiations on the sale of the former state-owned car group last July. On July 6, Professor Roland Smith, BAe's chairman, wrote to Lord Young laying down conditions for the deal.

Six days later, Lord Young agreed to several of the conditions, which made up the bulk of the £38m. But in his response on the same day, Prof Smith insisted all his original conditions had to be met.

The following day, BAe threatened to pull out of the deal. Labour believes further concessions, including a £5m government payment to the European Space Agency which has already been disclosed, were agreed during negotiations on July 13. Those allowed the deal to be announced the day after.

The extra concessions Prof Smith insisted upon included:

- Changes in the formula under which BAe would be penalised for selling Rover businesses within five years. Lord Young promised a private side letter to the agreement setting out the extent of BAe's flexibility on disposals.
- A reponse to BAe's mounting concern about its relationship with the Government in both civil and military fields. A leaked BAe strategy document suggests this centred on the payment of launch aid for the Airbus 330/340 European civil aircraft programme. Labour believes it may have involved discussions about the funding of the troubled £15bn Al Yamamah arms deal with Saudi Arabia.

Attention will also focus on whether the DTI influenced the Inland Revenue over BAe's tax benefits from the deal. The department dismissed an allegation Mr Brown made at the weekend that the Government knew last July these amounted to £10m more than the £25m estimated by the European Commission when it sanctioned the deal.

The NAO estimated the tax benefits were worth between £35 and £40m, although that did not include an estimate of the tax benefits from Rover's capital losses, which the DTI estimated at the time of the sale were worth £70m.

SDA to take share of land sale gains

By Hazel Duffy

THE Scottish Development Agency has told prospective buyers of its industrial property portfolio that it will share in any increase in land values from planning gains.

The agency, the largest industrial landlord in Scotland, is selling most of its industrial holdings in two lots. Proposals to wind up the Scottish new towns and sell off their property holdings will complete the process.

The value of the SDA properties on offer is more than £100m. The agency makes it clear in its recently published brochure that companies' plans for the development and enhancement of the estates will be taken into account in drawing up the shortlist of bidders.

There might be the opportunity for buyers to make windfall profits on land designated for industrial use which would be enhanced by a change in planning designation.

The purchaser will have to pay the agency 50 per cent of the increase for up to five years.

The Jaguar XJ220: new limited edition model has similar design

New sports model for Jaguar 21

By John Griffiths

A £250,000 Jaguar car based on the XJ220 design, previewed unexpectedly at the 1988 UK Motor Show, will soon go into limited production. The project will be launched on Thursday, in the immediate wake of final acceptances of Ford's £1.6bn takeover offer for Jaguar.

Jaguar executives insist that Ford had no direct involvment in the decision to go ahead with the model. Faith in the commercial viability of the project was the sole motivation, they said.

In spite of an ecstatic public reception for the XJ220 concept at the 1988 show, Sir John Egan, Jaguar chairman, said at the time that the company would have to be satisfied that the project could make money before committing it to production.

It is expected that the cars, of which at most a few hundred are likely to be made, will be produced at the Bicester, Oxfordshire, premises of JaguarSport, a 50-50 joint venture company between Jaguar and Mr Tom Walkinshaw's TWR Group. They will use detuned versions of Jaguar's racing engines mated to purpose-developed, UK-built transmissions.

In market terms, the 200mph-plus machines are similar in concept to limited-production "supercars" such as Ferrari's F40 and Porsche's 959, which already command huge price premiums among collectors.

- *The Le Mans 24-hour race* has been banned by the Fédération Internationale du Sport Automobile (FISA), motor sport's governing body. FISA announced at the weekend that the Le Mans track licence was being withdrawn for reasons of safety involving the length of a straight section.

Race organisers claim that the issue of track safety had been used by FISA as a weapon in negotiations over who should benefit financially from the race.

Mercedes, Ford, Nissan and other leading vehicle manufacturers, dismayed at the prospect of losing an event they regard as worth more in prestige terms than most other races combined, are now likely to press for a compromise that would leave Le Mans in the motor racing calendar.

Fine balances where motorist meets rising price of petrol

Steven Butler looks at the arguments on both sides that the MMC will have considered in its forthcoming report

THE FINAL verdict on Monopolies and Mergers Commission report on the petrol retailing industry – whether it will be a politically embarrassing damp squib or initiate a revolution – will have to wait until the document is published.

The report is not due to be submitted to the Government until December 20, but early indications are that it might disappoint the oil companies. They have defended present practices as competitive and in the consumer's interest.

Two aspects of current practice have aroused the MMC's particular interest. They are the tight control over service station operation that present licence agreements provide and the practice of supporting prices selectively at individual stations to meet the competition.

Although some leading retailers, such as Texaco, operate mainly under landlord-tenant arrangements, the biggest operators in the market – Esso, Shell and BP – have turned mainly to licence agreement for sites they own. Unlike landlord-tenant contracts, licence arrangements give little security to station operators, whose contracts come up for renewal periodically, and allow oil companies tight control of nearly all aspects of station operation.

Oil companies believe such arrangements have allowed them to increase petrol volume throughput and site profits, and to invest in confidence. Esso, the largest retailer, with 19 per cent of the market, bought many of its former tenants out of their contracts in the 1980s to put them on licence agreements. It believes that although many tenants may be excellent operators, performance is uneven.

Removing tenants from sites can be a lengthy and costly affair, and industry executives say the procedure for making changes in a station's operation can be extremely cumbersome. Oil companies say investment in stations would fall if they were to lose control over the sites. They suggest that standards of service would decline, while prices might rise. They also add that – depending on the specifics of the recommended changes – any move to a landlord-tenant relationship might prove cosmetic.

PETROL MARKET SHARES (%)

Esso	19
Shell	18
BP	$12\frac{1}{2}$
Texaco	10
Mobil	7
Jet (Conoco)	6

Approximate market shares of biggest petrol retailers.

Ranged against those arguments are complaints by some licensees that oil companies restrict their ability to respond to local market conditions and to maximise profits – restrictions that directly affect the operator's income. The oil companies make the restrictions partly because they believe that uniformity of operations from site to site is an important marketing tool in increasing petrol sales.

Licensees also argue that the lack of security discourages operator investment in the site and is unfair because it leaves them no equity in the site – after many years' effort in improving its performance.

Arguments against the licensee arrangements, however, go beyond the fairness of the relationship with the oil companies. The Petrol Retailing Association has suggested that oil industry control over the sites – including the price support arrangements that allow oil companies to set prices at individual stations throughout the country – are anti-competitive and against the interest of consumers.

Under current arrangements, oil companies set maximum prices at station sites and leave operators free to fix pump prices below those levels. However, the tightness of margins gives the retailer relatively little room for manoeuvre, leading to charges of "de facto resale price maintenance." Actual resale price maintenance would be illegal.

The practice of giving selective wholesale price reductions to some dealers – to meet the competition and stay in business – magnifies the oil companies' control. They agree that although that is an unfortunate arrangement, because the decision whether to compete on price cannot be taken by the station operator, they can see no practical alternative – other than to shut stations.

Partly because they are forced to take tough decisions on price support, retail operations managers are mystified by charges that the industry is not competitive. It appears, and is, a tough business on the street.

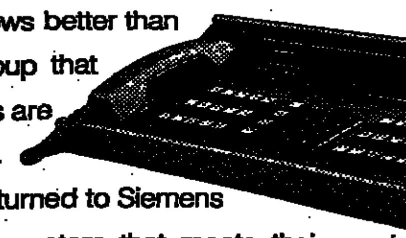
The oil companies say that restrictions on pricing flexibility might spur a rapid rationalisation of the industry and lead to the closure of a large number of stations. That could produce a more efficient industry, with higher volumes but fewer sites.

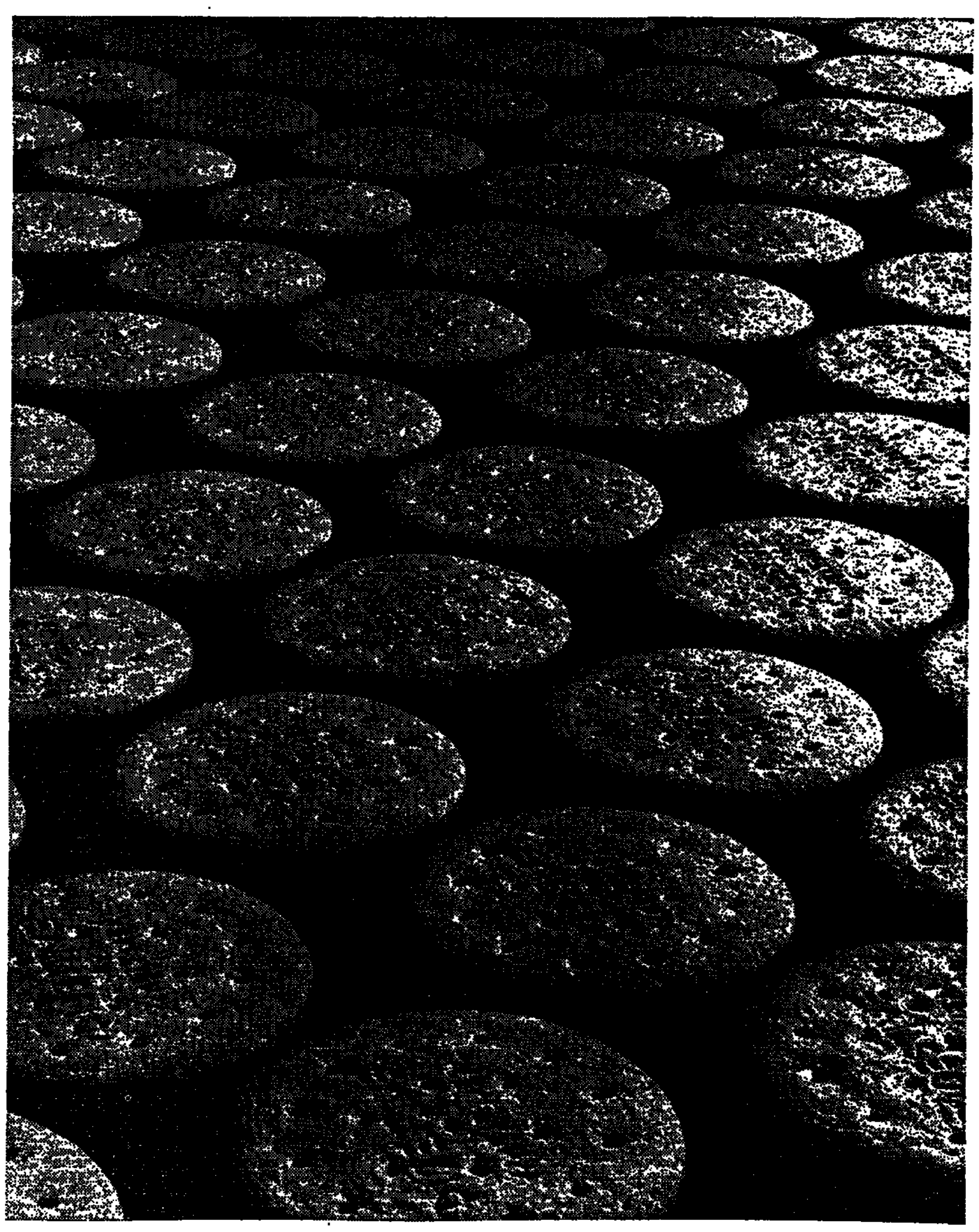
The transition would be painful, however, and it is possible that a reduction in service stations would eventually push prices up by reducing the number of local competitors. The extent of the cutback would depend on whether oil companies were required to fix a uniform price nationally, by terminal, or by region.

The counter-argument is that selective price support keeps prices high, because the knowledge that an oil company can meet a lower price discourages competition. The PRA argues further that more security and independence for station operators and the removal of selective price support would cut many of the integrated oil companies' marketing advantages.

The PRA says that could lead to competing retail chains based on different marketing concepts, which would create more consumer choice.

The key question facing the commission – political considerations apart – must be whether it is worth tampering with the structure of a finely balanced industry if there is no compelling evidence that consumer interest is being harmed.





UK NEWS

Many retailers face big rises in council rates

By Maggie Urry

THE RETAILING sector will be one of the hardest hit by the change in the rating system, with many shops facing large increases. The increases are seen as another blow to retailers already battling with poor sales and rising costs.

Details of the rises retailers will face in April, after the move to a uniform business rate, are beginning to emerge.

Estimates by Debenham Tewson & Chinnocks, chartered surveyors, show shops' rates rising by over 300 per cent in some areas.

The increase will not all come at once, though, as the Government has introduced a phasing-in period, when rate increases will be limited to 20 per cent plus inflation each year. However, new shops will go straight to the new level.

Rates in the fashionable Knightsbridge shopping street in London, where the famous Harrods department store is located, will rise by as much as 360 per cent. In Oxford Street, another of London's main shopping areas, rates are liable to rise by around 180 per cent, the firm believes.

Smaller increases will be seen in other areas. In Bristol and Canterbury, rises of 200 per cent are expected, while in Nottingham and Exeter about 100 per cent increases are estimated.

In Manchester and Liverpool, where rates are higher than in many southern centres, rates will fall by about 10 per cent in each city.

Debenham Tewson & Chinnocks suggest that a shop in Knightsbridge might currently pay rent of £350 a sq ft, and rates of £21.15 a sq ft. The rise in rates of 360 per cent would push up the combined rent and rates payment by a fifth.

A shop in Manchester might pay rent of £150 a sq ft and rates of £60.10p a sq ft. Here a 10 per cent fall in rates would mean a slight fall in the combined cost.

Minford tells Major to avert an 'awful 1990'

By Simon Holberton, Economics Staff

THE BRITISH economy is already close to recession, according to the latest quarterly economic forecast by Liverpool University. It says Mr John Major, the Chancellor, should consider cutting interest rates to 14 per cent early in the New Year.

Professor Patrick Minford, Professor of Applied Economics at the university, says Mr Major should reject advice on the need for a tight Budget next spring and reduce the basic rate of income tax by 1p.

"If something is not done very soon to ease monetary conditions we risk an awful 1990," he says.

Prof Minford says Mr Major should be guided only by domestic indicators of activity. The exchange rate has become "political," reflecting overseas views of the Government's popularity, and is a poor indicator of monetary conditions. Using higher interest rates to defend sterling would only worsen the Government's popularity. That, in turn, would further weaken sterling, Prof Minford says.

● Early full membership of the European Monetary System would harm Britain's economic prospects and should be delayed for as long as possible, according to Mr Peter Spencer, UK economist at Shearson Lehman Hutton, the US securities house.

Mr Spencer warns that if the Government takes Britain into the exchange rate mechanism of the EMS at around the pound's current value against the D-Mark (DM2.80) it would risk re-igniting inflation in the housing market.

He proposes capital gains tax on owner-occupied housing to dampen the housing market.

Campaign promotes payroll giving

By Alan Pike Social, Social Affairs Correspondent

THE Government is to seek the help of employers' organisations in a campaign to encourage greater support for charity through the payroll giving scheme.

Payroll giving, which was introduced in the 1987 Budget, offers tax benefits to employees who make regular contributions to charity through deductions from their salaries. Ministers hoped it would have a significant effect in persuading large numbers of people who have benefited from real income growth in recent years to become more generous in their support for charity.

However, Mr John Patten, the Home Office Minister who is chairing a government review of state funding for the voluntary sector, admits that the scheme has "not taken off as fast as it should have done."

There are 3,700 payroll giving schemes with 110,000 members, but in the last financial year they raised less than £4m for charity. The total, although growing, is unlikely to exceed £7m this financial year. That is a minute fraction of the annual income raised by charities from voluntary donations, estimated at somewhere between £3bn and £4.5bn.

Mr Patten said the money being raised by payroll giving was a "drop in the ocean" considering that it was a relatively painless method of making charitable contributions which offered substantial tax benefits.

He intends to seek meetings with the Confederation of British Industry, Institute of Directors and Chambers of Commerce to explore ways of boosting the scheme.

The Government is giving financial support to voluntary-sector efforts to publicise the scheme and a payroll giving association, with Lord Whitelaw as its president, has been set up to promote it.

"If everyone in the country who is at work gave £1 per week through the payroll giving scheme it would transform the face of charitable giving in this country," Mr Patten said.

Charities Survey, Pages 23-27

Hurd keeps Prime Minister out of a fight

Strasbourg warmed to a more co-operative Mrs Thatcher, Michael Cassell writes

ALTHOUGH he took a back seat at Strasbourg, Mr Douglas Hurd, oozing fulfilment in his new role as Foreign Secretary, may turn out to have played a highly significant role in shaping his prime minister's approach to a summit that could have ended in more tears but which finished with friendly regrets.

Mrs Thatcher flew into Alsace, having already lost the argument on the social charter and on progress towards economic and monetary union. Only on Europe's response to recent, historic events in eastern Europe did she appear broadly in step, although still supremely cautious.

Even so, there was a markedly more constructive tone than previously on the plan for a European development bank to help lubricate democratic change in the east. And while Mrs Thatcher gave a fairly positive endorsement of the anti-inflationary benefits of the exchange rate mechanism of the European Monetary System, tied to the sheet anchor of the D-Mark, she implied they were now threatened by plans for economic and monetary reform.

Although the Prime Minister spoke of leading the way in community integration, to her the process apparently reaches its conclusion in 1992 with what she called, in an air of clearly implied finality, the "successful completion of the common market."

Douglas Hurd: Tories united on main EC issues

This time, though, the Prime Minister's strategy and language – if not her arguments and objections – had clearly changed. As one member of the French delegation remarked: "For once, she left her handbag at home."

The change of tack drew a different response. President Mitterrand expressed regret at her continuing reservations but hoped that she would eventually find herself in accord with the others. Chancellor Helmut Kohl thanked the Prime Minister for her "positive and co-operative" approach to the Strasbourg proceedings. There was even a round of applause when she pledged that Britain would continue to play a full role in a developing Europe.

Early on in the summit, however, it had been Mr Hurd who had briefly escaped from the ring of security surrounding the Palais de Musique et des Congrès to claim that the Conservative Party at Westminster was almost at one over issues like the social charter and monetary union.

Ninety-five per cent of MPs, he suggested, "camped on common terrain" when it came to such matters. In a clear message which Mrs Thatcher appeared to have heeded, Mr Hurd said the Government now needed to prove more persuasive in stating its case.

The Prime Minister, he insisted earlier, had not gone to France looking for a fight, a strategy that he may well have helped devise.

With one eye on her Tory critics at home, who will tomorrow have their first chance to express in the Commons their reaction to Strasbourg, Mrs Thatcher accepted with good grace the inevitability of the decisions taken, adopting what amounted to an "include me out" approach.

Rejecting the notion that she had, perhaps, become more conciliatory, the Prime Minister pledged a "constructive and relevant" contribution to the unfolding challenges ahead.

Those decisions with which she could not agree were, however, portrayed as symbolic gestures of no immediate consequence, consigned to a timeless, bureaucratic vacuum, from which common sense and sheer practicality would ultimately emerge.

With the starting date set for an inter-governmental conference on economic and monetary union, the Prime Minister invoked the opposition of the Commons in rejecting further stages of Delors, while she hopes eventually to recruit to the cause others with deep anxieties, such as the West Germans.

She claimed, too, that President Mitterrand himself envisaged a deliberative process lasting "years and years," although on Saturday he expressed the hope that work could be completed by the end of 1992.

The British camp was anxious to emphasise that Mr Delors' own views had "moved on" and that the UK's evolutionary alternative would itself be the subject of continuing development. For Mrs Thatcher, the target remains economic and monetary "co-operation" and not union.

The West German suggestion that the conference might embrace wider issues, such as increased powers for the European Parliament, came as no surprise to a prime minister who is deeply suspicious of a Strasbourg talking-shop.

Although she pledged full participation in an "untimely and unnecessary" exercise, her attitude towards any plan which threatens Westminster's own powers will prove no less strident than that towards a single currency or a central bank.

On the social charter, where room for compromise has run out, in spite of the most recent efforts by the French to explore changes making the plan more acceptable to the UK, Mrs Thatcher said "only 11" member states had endorsed the plan, managing to make it sound like a close contest. But quoting Jacques Delors, president of the EC Commission, she said the outcome was "not a tragedy."

The charter's individual proposals will, Mrs Thatcher emphasised, be brought forward and treated on their merits. Although she thought they may not have been far from her mind, there was no talk of vetos from an uncharacteristically low-key leader who, in the words of Felipe González, the Spanish premier, "wanted to put on the brakes but did not want to get off the train."

FT SATELLITE MONITOR

Installation of dishes slowed markedly in November

By Raymond Snoddy

INSTALLATION of satellite television dishes slowed down markedly in November, according to the latest FT Satellite Monitor.

While the number of homes estimated to have their own dishes approached 400,000, only about 35,000 actually installed equipment last month. That compares with 122,000 in October and 72,000 in September.

Continental Research, which produces the monthly FT Satellite Monitor for the Financial Times, has retreated from its forecast that there would be 600,000 dishes installed by the end of the year.

Continental now believes that its earlier forecast made in June that the year-end figure would be 468,000 was more accurate. It believes that unless there is a large surge of interest this month the total for 1989 is unlikely to exceed 500,000.

Mr John Clemens, chairman of Continental, said that heavy advertising by Mr Rupert Murdoch's Sky Television in September and October may have brought forward installations that might otherwise have been delayed until later in the year.

Meanwhile, British Satellite Broadcasting – Sky's satellite rival in which Pearson, publisher of the Financial Times, has a stake and which plans to launch in the spring – advertised little in September and October but spent heavily last month.

"This level of competitive advertising from BSB in November will, alongside the early pull-through effect of the September/October Sky advertising, have contributed to slowing down installation," Mr Clemens said.

The fall in the rate of installation in November has been paralleled by a sharp decline in the numbers who say they will definitely or probably instal satellite television. Only 3.7 per cent of the population, in 795,000 homes, now say they will definitely instal satellite television compared with 4.2 per cent or 902,000 homes in October. The drop is even sharper among those who say they will probably instal. Eleven per cent, or 2.36m, now say they will probably instal compared with 15.9 per cent or 3.4m in October.

That gives a total potential market of 3.5m homes, compared with 4.66m a month ago.

Continental believes the latest figures show the market is volatile, particularly among those who are just "probably intending to instal."

The FT Satellite Monitor is based on telephone interviews with 4,070 people aged 15-plus. It records the number of satellite dishes found, whether rented, bought or obtained directly from Sky Television.

In the November survey, 67 dishes were identified, both large dishes and the new 60-cm units to receive channels from Sky and MTV, the venture involving W H Smith and Mr Robert Maxwell. The numbers are then scaled up to cover Britain's 21.5m homes, with a margin of error of plus or minus 30,000.

In November there was a particularly sharp drop among those who form the main market potential – adults under 45 – from 29.6 per cent to 21.8 per cent.

Apart from the effect of advertising campaigns, Continental believes this group is being influenced by the growing cost of borrowing and mortgages.

Field support in Labour civil war

Ian Hamilton Fazey on the Wirral's fight over the union block vote

MR FIELD is expected to see Mr Neil Kinnock, the Labour leader, today before announcing whether he intends to force a by-election, writes Michael Cassell, Political Correspondent. Mr Davies, victor in the selection contest, yesterday offered to repeat the ballot, but Mr Field rejected the idea. The MP refused to discuss his next step, saying only that he was looking forward to meeting Mr Kinnock. It is understood that Mr Field intends to tell the party leader of how he believes his local party has been infiltrated by extremists. If Mr Field goes ahead with his threat to force a contest against an official Labour candidate, he faces expulsion from the party.

ON THE pavement outside the Birkenhead offices of the Transport and General Workers Union, Mr Frank Field was shivering, coatless in the raw December night.

He had just been deselected as Labour candidate for the town at the next general election. "I can't tell you what good heart I am in," he said.

A young bystander, hunched into his anorak, shouted earnestly: "He's got the support of the real Labour Party. That's all he needs."

In spite of his endorsement by 165 votes to 113 – nearly 60 per cent of the Birkenhead party's individual members – he was defeated by the union block vote, 35-16. The TGWU, which has been affiliating branches to the Birkenhead constituency party in recent months on the ground that they have members who live there, accounted for 17 of the union votes. The contest was won by Mr Paul Davies, a TGWU official, who refuses to say where he stands on the Left.

Mr Field believes the result will sound the death knell of the trade union block vote in Labour elections. He believes the system corrupt and unfair. In Mr Field's case, the unions' 40 per cent share of the electoral college meant that every trade union delegate's vote was worth 0.78 per cent of the college while each individual's was worth 0.22 per cent.

The question is whether he will resign and fight a by-election to force the issue into the open. "I have a very good scenario in mind," he said.

He would not be drawn on whether that included a by-election in which Mr Neil Kinnock, the Labour leader, and his supporters would impose Mr Field as the official candidate. An investigation of the credentials of some voters would have to take place first, although it seems likely that Mr Davies won within the rules.

The lines now seem drawn for the next phase of Labour's civil war. Mr Field sees it as about two different forms of democracy: one-person, one-vote, as favoured by Mr Kinnock, versus the trade unions' traditional branch and delegate structure, which gives disproportionate power to union activists who attend meetings.

The evolving social structure on the Wirral has seen Labour with increasingly fewer middle-class supporters in the central urban areas. There is a deep anti-intellectual streak running through its membership. Mr Field, one of Labour's best thinkers, was in constant peril in spite of improving his vote from 20,803 to 27,883 between 1979 and 1987.

The ground is fertile for the hard Left – nearly one in five men, mostly unskilled, are out of work while unemployment rates in skilled and white-collar sectors are 5 per cent or less, worsening the gap between haves and have-nots, between suburbia and the urban centre.

Many favour direct action, such as the stand of 47 Liverpool councillors in 1983-87, which led to their disqualification from office, or the illegal occupation of the Cammell Laird shipyard in 1985. Mr Field opposed both vehemently.

The hard Left has sought to replace all Merseyside Labour MPs who do not fit its stereotype or who do not support the ascendancy of trade unions in dictating policy.

An attempt was made to unseat Mr John Evans (St Helens North), who was Parliamentary Private Secretary to Mr Michael Foot when the latter was Labour leader. Mr Evans had supported the one-member one-vote principle at Labour's 1985 conference without the permission of his constituency party. He survived by proving that his opponents had broken the party's rules. With the party suspended, his reselection was confirmed by the national executive.

Mr Gerry Bermingham, a barrister who represents St Helens South, benefited similarly in 1987 but has just been deselected, though alleged irregularities in the ballot may cause a re-run. His opponent is Mr Brian Green, a former council leader who once tried to flood the St Helens Trust, Britain's first enterprise agency, with trade unionist governors to make it more "accountable." The chairman, Mr Antony Pilkington, refused, dug in and won.

Mr George Howarth, imposed on Knowsley North by Mr Kinnock and his supporters in a bitter fight against Trotskyist infiltrators in a 1986 by-election, has just survived reselection, having ensured that his local party was reconstituted mainly with mainstream members.

It is against that background that Mr Field is threatening to upset Labour's carefully stacked and presented national applecart. Mr Davies yesterday offered a re-run under old rules, when delegates did the choosing, but Mr Field knows his strength is among the party rank-and-file and is unlikely to accept.

UK NEWS

BR subsidy cut expected this week

By Kevin Brown, Transport Correspondent

THE GOVERNMENT is expected to announce a big cut in British Rail's subsidy this week – almost a year after 35 people died in the Clapham rail disaster.

BR faces a bill of hundreds of millions of pounds for safety improvements recommended by the public inquiry into the disaster, in which three rush-hour trains collided on December 12.

Sir Anthony Hidden, the inquiry chairman, made 93 recommendations for safety improvements. They included new signalling, cab radios and phasing out old trains.

Mr Cecil Parkinson, the Transport Secretary, has given BR until February to produce fully costed plans for implementing the inquiry's recommendations. Mr Parkinson has accepted the recommendations and undertaken that they will be implemented. However, he has not indicated how they will be financed.

Meanwhile, publication of the Government's new three-year objectives for BR has been delayed, as has publication of the corporation's own five-year business plan.

Both are likely to appear later this week, when the Clapham anniversary is out of the way. They will disclose a cut of up to 25 per cent over three years in BR's main subsidy, known as the Public Sector Operating (PSO) grant.

That follows a reduction of 51 per cent in real terms in the PSO grant over the last five years and is consistent with the Government's policy of reducing subsidies to the minimum level possible.

InterCity, the flagship express service, has received no subsidies since last year, and BR executives have long expected Network SouthEast, the London commuter service, to lose its subsidies by 1992. Mr John Prescott, shadow Transport Secretary, said yesterday that passengers would pay for the cuts in subsidy through higher fares "and an even poorer service."

Mr Prescott said the Government's own road assessment studies for London, which may also be published this week, assumed an increase in rail and Tube fares in the capital of more than 40 per cent over the next 10 to 15 years.

"London will be the only capital city in Europe where rail services are expected to make a profit. In the age of the super jam, when London is in daily danger of grinding to a standstill, it makes no sense to judge the success of rail services in such narrow financial terms."

John Prescott: passengers will pay for cuts in subsidy

Mortgage agency tried to use methods of Homes Assured

By Richard Donkin

A COMPANY connected with Homes Assured, which collapsed with debts of £9.6m in August after setting up a mortgage service for council tenants who wanted to buy their houses, was trying to establish a similar business shortly before Homes Assured folded.

Homes Assured, which is being investigated by the Serious Fraud Office, sought to arrange mortgages for tenants and to make its income from commissions on endowment policies. It sold policies arranged at first with Legal and General and later with Criterion Assurance. The business crashed when 15,000 of 20,000 tenants signed up by Homes Assured cancelled policies.

City Hall Mortgages, with an office in Ilford, East London, has attempted to continue a similar business using an agency link with Commercial Union. The company was set up in April by Mr Anthony Dobson, and Mr Martin Dobson, both sons of Mr Tony Dobson, the man who joined the Homes Assured board on the same day as Sir Edward du Cann, the former Conservative minister. Mr Tony Dobson has been identified by former Homes Assured directors and staff as the driving force behind the company.

Commercial Union says it has terminated the link with City Hall Mortgages and has taken no business from the company.

City Hall Mortgages negotiated an arrangement with Hackney Borough Council in August to be supplied with the names, addresses and telephone numbers of more than 200 tenants who wanted to buy their homes. The council said this week it stopped supplying the names three or four weeks ago because the company "did not deliver the quality of service we require."

A document showing a proposed group structure for Parkside Holdings, the main shareholder in Homes Assured, indicates that a number of companies had been formed or were to be formed to carry out similar businesses in what was to become a property and financial services empire.

County Hall Mortgages, one of the companies featured, had a tie-up with Commercial Union to sell life polices. Commercial Union confirmed that County Hall Mortgages had been appointed representatives for a three-month period.

During that time it had brought in just 13 life assurance proposals to Commercial Union, which is contacting clients to see if they want to continue. Commercial Union said it recently ended its arrangement with County Hall Mortgages.

Board members of County Hall Mortgages included Mr Anthony Dobson and, briefly, Sir Edward du Cann, who was also a director of Homes Assured, from which he resigned on August 16.

Sir Edward was appointed a director of County Hall Mortgages on August 8 and resigned on September 6.

Truck makers braced for gloomy 1990 as sales drop

By Kevin Done, Motor Industry Correspondent

UK COMMERCIAL vehicle sales plunged in November for the second month in succession. The industry is bracing itself for a further steep fall in 1990 as the economic squeeze tightens, restricting investment and retail activity.

Overall new commercial vehicle sales at 27,067 were 16.8 per cent lower in November than a year earlier. In October, commercial vehicle registrations fell by 12.02 per cent. The used-vehicle market is also depressed and truck makers have begun to cut output levels.

Sales for the first 11 months, at 353,273, were 5.1 per cent higher than a year ago and registrations for the full year are still certain to reach a record level for the third year in succession.

Commercial vehicle sales totalled 356,783 last year.

The truck market (above 3.5 tonnes gross vehicle weight) in particular is notoriously cyclical. Leading truck makers are forecasting a fall of 12-15 per cent in UK truck sales (above 3.5 tonnes) next year after a steep drop in the final quarter of 1989.

Mr Hans Tauscher, managing director of Mercedes-Benz (United Kingdom), said: "Over the last few weeks we have seen a change of mood caused by the apparent inability of the Government to keep inflation under control with punishing interest rates, coupled with the news that major sectors of the retail industry have started to flag."

Commercial vehicle markets had been "drastically reduced" in October and November, and the trend was expected to continue "well into 1990", he said.

Mercedes-Benz, of West Germany, controls more than 15 per cent of the UK truck market.

The company forecasts a fall in truck sales by around 12 per cent next year to some 62,000.

Truck sales this year are expected to total about 70,000, compared with 67,918 in 1988.

Leyland DAF, the UK subsidiary of DAF of the Netherlands, which is in second place in the market behind Iveco Ford, predicts only that truck sales "will exceed 60,000" next year.

In November, truck sales were 19.8 per cent lower than a year earlier, while sales of light vans and pick-ups fell by 15.5 per cent, and sales of medium and heavy vans, the biggest single sector, dropped by 17.8 per cent, according to figures from the Society of Motor Manufacturers and Traders.

The medium van sector, which is dominated by the Ford Transit, has outperformed other sectors, with an increase in sales for the first 11 months of seven per cent.

Ford has made further impressive gains, capturing a market share of 47.6 per cent for the first 11 months compared with 41.7 per cent a year ago. The company's performance was helped by a 22 per cent jump in sales volume.

Its gains have been made chiefly at the expense of Nissan of Japan, Leyland DAF and the Peugeot group, which includes the Citroen and Talbot marques.

Nissan imports vans from Japan and from its Spanish assembly plant. Its medium-van sales have plunged by 24 per cent, while second-placed Leyland DAF has suffered a drop of 6.5 per cent in sales volume. Peugeot sales in the sector have fallen by 7.7 per cent.

In the truck sector the market leaders, Iveco Ford and Leyland DAF, have both lost ground, as has the much smaller Renault Truck Industries.

The main gains have have been achieved by Mercedes-Benz and the Swedish truck makers Scania and Volvo, as well as in the heavy truck market by ERF, the last remaining independent publicly quoted UK truck maker.

UK COMMERCIAL VEHICLE REGISTRATIONS JANUARY-NOVEMBER 1989

	Volume (Units)	Volume Change (%)	Share (%) Jan-Nov 89	Share (%) Jan-Nov 88
Total Market*	353,273	+5.10	100.00	100.00
Imports	139,945	+4.15	39.61	39.97
Small vans (up to 1.8 tonnes)				
Total	113,396	+2.55	100.00	100.00
Imports	31,243	−1.65	27.55	28.73
Ford	36,472	+5.92	32.16	31.14
GM (Bedford)	32,371	+8.07	28.55	27.09
Rover	18,919	+3.47	16.68	16.54
Peugeot (incl. Citroen)	8,128	−8.91	7.17	8.07
Renault	5,489	−9.84	4.84	5.51
Medium Vans (1.81−3.5 tonnes)				
Total	151,892	+7.00	100.00	100.00
Imports	68,890	+6.24	45.35	45.68
Ford	72,289	+22.02	47.59	41.74
DAF (Leyland DAF)	14,967	−6.50	9.85	11.28
Renault	12,074	+5.62	7.95	8.05
Nissan	8,311	−24.13	5.47	7.72
Peugeot (incl. Citroen & Talbot)	8,283	−7.66	5.45	6.32
Mercedes-Benz	8,984	+13.18	5.91	5.59
GM (Bedford)	8,218	+7.24	5.41	5.40
Trucks (over 3.5 tonnes)				
Total	66,268	+3.64	100.00	100.00
Imports	27,500	+5.46	41.50	40.78
Iveco Ford	14,698	−4.60	22.18	24.10
DAF (Leyland DAF)	13,950	−3.12	21.05	22.52
Mercedes-Benz	10,383	+6.74	15.67	15.21
Volvo	6,845	+5.31	10.33	10.17
ERF	4,149	+17.39	6.26	5.52
Renault (RTI)	3,927	−9.35	5.93	6.78
Of which Heavy Trucks (over 15 tonnes)				
Total	37,490	+6.21	100.00	100.00
DAF (Leyland DAF)	8,023	−6.47	21.40	24.30
Volvo	6,292	+6.00	16.78	16.82
Mercedes-Benz	4,341	+2.77	11.58	11.97
ERF	4,149	+17.39	11.06	10.00
Iveco Ford	3,892	+12.10	10.38	9.84
Scania	3,532	+17.65	9.42	8.50

*Includes buses and light four wheel drive utility vehicles

Source: Society of Motor Manufacturers and Traders and Industry estimates.

Special squad urged on insider dealing

By Raymond Hughes, Law Courts Correspondent

INVESTIGATIONS of suspected insider dealing should be taken out of the hands of "gifted amateurs" at the Department of Trade and Industry and given to a specialist enforcement agency, a leading lawyer has suggested.

Speaking at a conference at King's College, London, Mr Michael Ashe, a London barrister and deputy public prosecutor in Singapore, said that a large and sophisticated financial market such as the UK should be seen to be taking a tougher line on insider dealing.

He said the most vital ingredient for an effective insider dealing law was adequate, expert and fast investigation of cases.

There was little doubt about the high quality of the Stock Exchange surveillance unit; what appeared to be lacking was the manpower or facilities – or the will – to take investigations to the next stage.

If the insider dealing law was to be taken seriously, a well resourced team of professional and expert investigators, was needed, with adequate powers and legal back-up.

There should also be much greater emphasis on the early disclosure of information by companies, and heavy civil penalties to complement criminal sanctions.

Mr Ashe drew a parallel with tax laws, under which most cases of wilful default and fraud were dealt with by civil penalties. He said the availability of civil penalties might result in cases the DTI was rightly nervous about prosecuting being proceeded with. The criminal penalty could be kept in reserve for cases that were more truly criminal and would merit a jail sentence.

NOTICE TO HOLDERS OF

Lorimar Telepictures Corporation

6% Convertible Senior Subordinated Debentures due August 18, 2001

Warner Communications Inc. ("WCI"), the direct parent corporation of Lorimar Telepictures Corporation ("Lorimar") and a majority-owned subsidiary of Time Warner Inc., formerly named Time Incorporated ("Time Warner"), has entered into an Agreement and Plan of Merger, dated as of March 3, 1989, as amended and restated as of May 19, 1989, as further amended and restated as of June 16, 1989, as further amended and restated as of November 15, 1989 (as the same may be further amended from time to time, the "Merger Agreement"), with Time Warner and TW Sub Inc., a wholly-owned subsidiary of Time Warner ("Sub"), pursuant to which Sub will be merged with and into WCI and WCI, as the surviving corporation, will become a wholly-owned subsidiary of Time Warner (the "Merger"). In the proposed Merger, each then outstanding share of common stock, par value $1 per share, of WCI (a "WCI Share") will be converted into the right to receive the "Merger Consideration", which will consist of a unit, determined pursuant to the formula set forth in the Merger Agreement, of the following securities: (i) Series C 8¾% Convertible Exchangeable Preferred Stock, par value $1.00 per share, of Time Warner ("Cash Pay Preferred"); (ii) Series D 11% Convertible Exchangeable Preferred Stock, par value $1.00 per share, of Time Warner ("PIK Preferred"); and (iii) Class A Common Stock, par value $.01 per share, of BHC Communications, Inc. ("BHC Class A Common"). Based upon such formula and the number of WCI Shares expected to be outstanding at the effective time of the Merger (the "Effective Time of the Merger"), a unit of Merger Consideration would consist of approximately (i) $34.8829 liquidation value of Cash Pay Preferred; (ii) $28.1643 liquidation value of PIK Preferred; and (iii) .15166 of a share of BHC Class A Common.

Holders of WCI Shares will also have the right to receive additional consideration ("Additional Consideration"), payable approximately 57% in additional Cash Pay Preferred and the remainder in PIK Preferred (based upon the liquidation value thereof), equal to interest on the Merger Consideration at a rate of 9% per annum during the period from but excluding August 25, 1989 to and including the Effective Time of the Merger, less the amount of any cash dividend per WCI Share paid by WCI during the period from August 18, 1989 to and including the Effective Time of the Merger; provided, that any day during which consummation of the Merger is not possible because of an Injunction (as defined in the Merger Agreement) shall not be included in the calculation of the number of days in respect of which such Additional Consideration shall be so payable. Assuming that the Effective Time of the Merger occurs on January 10, 1990 and that there is no future Injunction, and after giving effect to the dividend of $.17 per WCI Share paid on November 15, 1989 to holders of record of WCI Shares, the Additional Consideration to be paid with respect to each WCI Share would consist of fractions of shares of Cash Pay Preferred and PIK Preferred having an aggregate liquidation value of approximately $2.21.

Lorimar's 6% Convertible Senior Subordinated Debentures due August 18, 2001 (the "Debentures") were issued under an Indenture, dated as of August 18, 1986, as amended by a First Supplemental Indenture dated as of January 11, 1989 (the "Indenture"), between Lorimar and The Chase Manhattan Bank, N.A., as Trustee, and currently are convertible into WCI Shares at a conversion price of $95.24 per share pursuant to the terms of such First Supplemental Indenture joined in by WCI. Upon consummation of the Merger, the Debentures will become convertible into units of Merger Consideration (including any Additional Consideration with respect thereto) in accordance with the terms of the Indenture.

Pursuant to Sections 105 and 1206 of the Indenture, you are hereby notified of the proposed Merger and of the intent to enter into a supplemental indenture which will provide that, effective as of the Effective Time of the Merger, the Debentures will be convertible into units of Merger Consideration (including any Additional Consideration with respect thereto) at an effective conversion price of $95.24 per unit, subject to adjustment in certain instances, as provided in the Indenture.

In accordance with WCI's Certificate of Incorporation and By-laws and the General Corporation Law of the State of Delaware, Time Warner has elected to approve and adopt the Merger Agreement without a WCI stockholders' meeting by means of executing a written consent, which has been executed and delivered by Time Warner. The Effective Time of the Merger is scheduled to occur on January 10, 1990.

Dated this 11th day of December, 1989 at Culver City, California.

N.V. VANDEMOORTELE INTERNATIONAL

Information for holders of certificates

In the General Meeting of shareholders held on December 5, 1989, it was decided to pay a gross dividend of Bfr 240 per certificate over the year 1988/1989.

The net dividend of Bfr 180 per certificate will be payable at the office of F. van Lanschot Bankiers N.V. at Hooge Steenweg 29, 's-Hertogenbosch and at the office op F. van Lanschot Bankiers (Luxembourg) S.A., 3 Boulevard Prince Henri, Luxembourg as from December 15, 1989 against delivery of the dividendcoupon nr 2 of the certificates of privileged shares.

Stichting Administratiekantoor van Bevoorrechte aandelen van N.V. Vandemoortele International
Hooge Steenweg 29, 's-Hertogenbosch, The Netherlands.

December 8, 1989

MANAGEMENT

Japanese deregulation

Counterblast on the phone

Haruo Yamaguchi tells **Hugo Dixon** why he thinks Nippon Telegraph and Telephone should be allowed to remain the world's largest company

Nippon Telegraph and Telephone, Japan's telecommunications giant, is in danger of losing its title as the world's largest company.

This is not because any other company is likely to grow bigger. Its capitalisation at around 23 trillion yen is one and a half times the size of its nearest rival – Industrial Bank of Japan – and two and a half times the size of the largest non-Japanese company, Exxon, the US oil company.

The reason is rather that NTT is under the threat of being carved up into 11 local companies and one long-distance supplier by the Japanese Government. As such, it suffers the same potential fate that befell American Telephone & Telegraph, which until it was split into seven regional groups and one long-distance operator in 1984 held an unchallengeable position as the world's largest company.

The Japanese Government has not yet made up its mind whether NTT, which was privatised in 1987, should indeed be broken up, but it is planning to present its policy on the matter by the end of the year. And a critical report in October from the Telecommunications Council, the Government's advisory body, gives an indication of the current mood.

The main criticisms of NTT are that it is bloated, inefficient and stifles competition. To these is added the impact of the Recruit scandal, which led to the arrest of NTT's former chairman and tarnished the company's image.

Haruo Yamaguchi, NTT's 64-year-old president and chief executive, vigorously defends the company's right to remain a single entity. NTT is 80 per cent efficient, he said in a recent interview in London. And, far from stifling competitors, Yamaguchi claims that "NTT has made every effort to try to facilitate their entry into the market. We have listened to their views and accommodated their requests and wishes. NTT has provided the technology that we have accumulated. We have disclosed all this technology to them."

The case that NTT is inefficient rests primarily on the claim that it employs too many people and that the organisation is too bureaucratic and centralised. Yamaguchi, though, hits at the suggestion that NTT is bloated by pointing out that staff numbers have fallen to 260,000 from a high of 330,000 several years ago. He also argues that the head of each of NTT's regions has been "delegated the maximum amount of responsibility as well as authority from the head office."

However, the heart of the criticism by the Telecommunications Council is that NTT has not decentralised authority nearly enough. It believes that, by turning NTT's regions into independent companies, inefficiencies would be easier to spot and rivalry between the companies would give an added incentive to improve performance.

These proposals are anathema to Yamaguchi, who compared the telecommunications network to a human being's nerve system. "Just think of what would happen if you split the nerve system ... If you split the nationwide network into different pieces, you would be faced with differential rates in different areas."

Haruo Yamaguchi: says NTT has been extending a "co-operative hand" to its competitors; its critics say what has actually happened is the opposite

Trevor Humphries

He also questions whether people would be able to get connections from the north of Japan to the south if the different regions were run by different companies.

But it is not at all clear why it should be impossible to make such connections. After all, people have little problem calling from one part of the US to another, despite the multiplicity of phone companies there, and international phone calls are possible even though there is not a single world phone company.

Yamaguchi side-steps this question by reverting to the financial arguments. "If you have different subsidiaries in different regions, each subsidiary would have different profits and losses.

"That would cause rates to differ. So when somebody in the north and somebody in the south talked to each other, the person in the north may be charged higher rates. That is a very unreasonable thing. People should be charged the same rate for the same call."

But it is not even clear why this should happen. If long-distance traffic is run on a truly competitive basis, there is no reason why a call from the north to the south should be more than from the south to the north. Isn't it only when there is a monopoly that there are such distortions in long-distance rates?

"Well, think of local rates," says Yamaguchi. "Suppose in the north they have fewer subscribers and the rates are therefore higher than in the south ... (Or) suppose in one region, the management is not producing good results. Then it is possible they have to charge higher rates compared with other regions and this sort of differential rate is still unreasonable."

The other major plank of the Telecommunications Council's proposals is that NTT's long-distance operations should be divorced from the regional companies. It would thus be forced to compete fairly with the three new common carriers (NCCs) which have sprung up to cater for long-distance traffic since Japan's telecommunications markets were liberalised. A further 39 operators are providing competition via paging, cellular, satellite and local networks.

Yamaguchi says there is no need to take this step because he welcomes competition, which has acted as a spur to improving performance, and NTT has been extending a "co-operative hand" to its competitors anyway.

But NTT's critics say what has actually happened is the opposite. One gripe is that NTT is slow in providing links between its network and those of the NCCs. This hampers competition because the NCCs have to use NTT's local network to get access to their customers.

"All of a sudden NCCs appeared and they are just unilaterally telling us where they want to have interconnection, where we don't even have our network," Yamaguchi's ripostes. "Maybe our network exists [in one place] but they want the point of interconnection right here [in another] and in order to realise that we have to construct the network.

"Before the construction work starts, we have to order the hardware and the hardware has to be delivered. Before even ordering the hardware, we have to be given the information about where they want the points of interconnection. So we have been asking them to provide that sort of information to us as early as possible, but they really did not do it."

Yamaguchi's counterblast sounds similar to the arguments used by AT&T in response to criticisms from its smaller rivals during the 1970s that they were not being allowed to connect their networks. Wouldn't it be simpler to split local from long-distance traffic and then there would be no doubt that NTT was abusing its dominant position?

"If we do that, long-distance rates would go up. In the US, they went up by about 40 per cent. I don't think Japanese users would be able to accept that," says Yamaguchi.

Another gripe is that customers of the NCCs have to dial four more digits to get a connection than NTT's customers and this puts them at a disadvantage.

Yamaguchi, though, argues that this was not as bad as the situation in the US where, until recently, customers of AT&T's competitors had to dial an extra 20 digits. Although it would be possible to cut the number of digits dialled by the NCCs' customers, he claims that, as a result, NTT's own customers would have to dial more digits.

Yet another complaint is that customers who buy large items of telecommunications equipment such as computerised switchboards from NTT have been given "good" telephone numbers. This is an abuse of NTT's control over the numbering system, the critics say.

Yamaguchi admits this used to take place, but says this had nothing to do with competition between NTT and the NCCs. "Of course, this was not a very good thing and was unfair. We have eliminated this sort of practice."

Another concern is that NTT is so vast that it distorts the market for supplying telecommunications infrastructure. Japanese electronics companies such as NEC and Fujitsu are regularly referred to as the "NTT family" and foreign manufacturers often complain that they are having to compete not just against single companies but against Japan Inc.

But Yamaguchi says that "NTT's procurement has been done in a most transparent manner. We are really the only company that is making procurement this fair and transparent internationally. Although it is true that we are buying a great deal, the way we buy is completely transparent, fair and, I want to emphasise especially, this fairness extends to the international arena."

The snag is that only 4 per cent of NTT's total procurement budget of 1.2 trillion yen is placed with foreign firms. This compares with well over 10 per cent at some of the "Baby Bells" which resulted from the break-up of AT&T.

Yamaguchi counters that "when AT&T was still one company, its procurement from foreign sources was only about 10 per cent." But, if one follows this analogy through, the conclusion would seem to be that the position of foreign suppliers in Japan would improve if NTT were also broken up.

Managers are the Luddites now

John Gapper reports that CAD is more popular with its operators

Which sort of worker feels threatened by, and tries to resist, new machinery? The shopfloor operator has always been thought to be the main culprit in Britain. But a damning study of the incompetent ways in which British engineering companies have introduced computer-aided design (CAD) systems in the 1980s suggests that managers may be the new Luddites.

The picture painted by the study of 16 engineering companies is a depressing one. Here are tales of inter-departmental rivalry, lack of training, fear and ignorance about technology. British companies emerge as willing to spend a lot on technology, but little on teaching people how to work it.

"What use is all this expensive hardware and software we own if we don't know how to use it properly?" is the question the study suggests senior managers ask themselves.

Perhaps the most humiliating conclusion for managers is that early resistance to CAD among unions and workers has died away, while managers remain suspicious and ignorant of it.

The experiences of a small company making mechanical handling equipment are typical. The personal computer-based system looked smart and reduced labour turnover, but "it was not totally clear whether the CAD system's primary role was an engineering one, or whether it was simply. . .part of the very attractive and expensive furniture."

In 1986, the managing director believed the company had never had any significant benefit from CAD. In 1988, a manager said the system had never been managed properly and no senior manager had devoted time to working out how best to use it. The man called "CAD manager" was the operator who had shown most interest, and had no managerial training.

The system was being used predominantly for two-dimensional drafting and detail drawing, rather than three-dimensional modelling. Only five of the 12 design engineers were trained to use it at all. There was no training budget in 1988, nor little hope of one in the future, so the CAD manager was unable to train the engineers he needed.

The CAD system was none the less quite popular with the users. The company was not unionised, and there had been no pay rise attached to learning to use the system. The users saw their skills as helpful in making them attractive to other companies rather than being of benefit in their current jobs.

The study, carried out between 1981 and 1988 by researchers at the Science Policy Research Unit, concludes that the proper use of CAD requires high managerial skills because of its challenges to the organisation of work and demarcation among departments. But "British senior management often seems to believe that its only role is to sanction the purchase of CAD equipment and thereafter to forget about it."

Companies generally allocated a middle-level manager, who lacked insight into strategic issues, to implement CAD within design and drawing offices. These managers were often capable of automating design and drawing, but were accused by colleagues of empire-building when they tried to extend the use of the system into computer-aided engineering.

The neglect of training for users, which limited the full use of the systems, was found to be matched by the tendency of managers to devote insufficient time and resources to training themselves. This is partly blamed on the revolutionary nature of CAD technologies, which many senior managers found hard to grasp because of their background.

"It can also be explained by the relatively autocratic, non-participative style of British management, a style in which attendance at training courses, and listening to juniors' advice, can come to be regarded as demeaning," the study says. In other words, managers' insecurity and obstinacy prevented proper use of the equipment they had bought.

Making More of CAD; EITB Publications, PO Box 75, Stockport SK4 1PH; £70 (Synopsis £10; Synopsis and Report £75).

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THE TECs SO FAR

South East Milton Keynes, Hertfordshire, Essex, Hampshire, Isle of Wight, Thames Valley, Heart of England (Oxfordshire). **London** Aztec (Kingston/Merton). **South West** Devon/Cornwall, Dorset, Somerset. **West Midlands** Birmingham, Walsall, Staffordshire, Dudley, Wolverhampton. **Northern** Teesside, Tyneside, Wearside, County Durham, Northumberland. **East Midlands and Eastern** North Nottinghamshire, Norfolk/Waveney, Suffolk, Greater Peterborough. **Yorkshire and Humberside** Sheffield, Calderdale/Kirklees, North Yorkshire, Rotherham. **North West** Cumbria, East Lancashire, Rochdale, Oldham, South and East Cheshire, Wigan, Stockport/High Peak. **Wales** Mid Glamorgan, South Glamorgan, Clwyd/North East Wales, West Wales, North West Wales.

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LEGAL COLUMN

Plight of NatWest in Blue Arrow defence

By Robert Rice, Legal Correspondent

THE DECISION of NatWest Investment Bank with the full support of the NatWest Group to fund the legal costs of its present and former employees charged in connection with the Blue Arrow affair appears to have been the result of much soul searching on the part of NatWest's new senior management.

Their dilemma lay in trying to balance fairness and loyalty to present and former employees on the one hand against the potential damage that might result if the offer of financial support was seen in any way as condoning their alleged misconduct or in some way as trying to influence their defence.

The official explanation for the decision offered by Mr Howard Macdonald, chairman and chief executive of NWIB, was that as the charges related to actions taken when the individuals were employed by the bank's subsidiary County NatWest, and therefore reflected on NWIB's business, the bank had thought it appropriate to make financial support available so that they could have "proper representation".

The bank also felt that financial help would enable the case to be dealt with as quickly as possible, which was very much in the best interests of NWIB, he said.

He was, however, quick to emphasise that the decision did not imply any comment one way or the other on the actions of any of the individuals, nor did it in any way commit NWIB or CNW to those actions nor imply anything in relation to the legal position of NWIB and CNW.

The individuals to whom the support has been offered are Mr Charles Villiers, former chairman of CNW, Mr Jonathan Cohen, former chief executive, Ms Elizabeth Brimelow former executive director and head of compliance, Mr David Reed, former executive director and head of corporate advice, Mr Nicholas Wells former executive director corporate advice and Mr Stephen Clark, who is still employed as the group finance director, but is suspended on full pay.

No decision has yet been reached by UBS Phillips & Drew as to whether it intends to follow NatWest's example in relation to its two former employees, Mr Martin Gibbs and Mr Christopher Stainforth, and its two current employees Mr Paul Smallwood and Mr Timothy Brown, who are also charged in connection with the Blue Arrow affair.

On the surface at least, the bank's decision looks unobjectionable. Those charged are alleged to have committed their offences while employed by the bank and in their capacity as bank employees. It can therefore be argued that it is only right that as they were not acting in a personal capacity, they should not personally be liable for the expense of defending themselves.

On the other hand it is hard to find any precedents for such a decision. Certainly, none of the Guinness defendants appears to have been so fortunate, although Cazenove & Co have on several occasions made clear that Mr David Mayhew remains a partner and enjoys their full support.

Mr Ernest Saunders, the former Guinness chairman and chief executive, far from being supported by his old employers, is being sued by them over the £5.2m the company alleges he authorised to be paid to US Attorney Mr Tom Ward for his services during the takeover battle for Distillers.

Mr Saunders' personal finances were exhausted by legal proceedings long ago (he still owes his lawyers over £300,000 from the early stages of his defence) and he has been granted legal aid subject to his having to make a possible contribution of up to £287,000 at the end of the trial. He has yet to be granted legal aid to fight the civil action.

Before reaching its decision, NatWest must have taken into account how it would be seen by the public. To many people it would merely look as though the bank was standing by them. But there was clearly risk that it might imply something further, that, for example, in some way the bank was condoning their alleged misconduct. Certainly it firmly allies the bank with their position.

There must also have been concern about the effect of the decision within the bank, particularly on staff morale. All those charged held very senior positions. Junior or middle-ranking executives might legitimately wonder whether if they had found themselves in a similar position the bank would have made the same gesture.

They will want to know whether the decision implies that in future the bank intends to fund the defence of any employee facing criminal charges arising out of their employment.

Is the bank in effect offering indemnity to its employees against the costs of legal action? If it is, then this type of support must surely be treated as an emolument rather like medical insurance. It will be interesting in any event to see how the Inland Revenue regards the funding by the bank of legal costs that will almost certainly in each case run into six figures.

The other reasons put forward by Mr Macdonald for offering financial support are less convincing. Those charged can almost certainly afford, in the initial stages at least, what the bank calls "proper representation".

Obtaining proper representation is not that expensive, it is the length of time that it takes to get these complex cases into court that causes the financial difficulties for defendants.

Proper representation will also have little bearing on the speed with which the case is dealt with. In all likelihood, the Blue Arrow case will come to court much more quickly than either Guinness or Barlow Clowes, but that is because it is entirely a domestic matter without the complications experienced in the other cases of gathering information and evidence abroad.

* * * * *

Some months ago in this column we took issue with The Economist for guessing at the gross fee incomes of City law firms and suggested an alternative method of calculating the right figures using Clifford Chance, the UK's largest law firm, as a role model.

Since that time, Clifford Chance has opened its doors, some might say rather unwisely, to the American Lawyer magazine. Staring out from the front cover of the December issue under the heading "Can they Skadden Europe?" (a reference to the US law firm Skadden Arps) are senior partner Sir Max Williams, managing partner, Geoffrey Howe (no relation), and marketing partner Derham O'Neill.

The article is for the most part a racy account of the 1987 merger between Clifford Turner and Coward Chance. The overall tone of the piece is rather snide, full of little remarks such as "Lawyers from the top competitors privately sniff at the quality of Clifford Chance's work, as seen across the table" and "Clifford Chance continues to be conspicuously absent from most of the highest-profile deals, according to nearly a dozen corporate partners at London firms".

Sir Max, who it describes as a "shrewd, pipe-smoking politician with a charming habit of dropping names", is philosophical about the piece. "It's full of inaccuracies", he says. "I've never smoked a pipe in my life".

He is particularly dismayed, however, by the firm's fee income figures which appear in a table in the article. "They are totally inaccurate", he says. "The firm would never disclose such figures".

For the benefit of those who may not see the article, here, inaccurate or not, are the American Lawyer's estimates of Clifford Chance's earnings. Gross revenues in 1989: £150m. Net revenues: £52.5m. Revenue per lawyer: £162,000. Profits per partner: £284,000. First year partner's earnings: £110,000. Senior partners (after 11 years) earnings: £375,000. Starting salary for assistants: £23,000. Hourly rates, partner: £225-275, assistant: £90-175, articled clerks: £50-80. Average rate per hour: £114.

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TROLLOPE, Jeannine Frances Ms, Norwich, Norfolk
TSANG, Thomas Fan Pui Solicitor of the Supreme Court of Hong Kong

COMPANY NOTICES

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE No.007544 of 1989
CHANCERY DIVISION

IN THE MATTER of: BUSINESS TECHNOLOGY GROUP PLC

- and -

IN THE MATTER of: THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 24th November 1989 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the Share Premium Account of the above-named Company by £5,198,132.64.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice Harman at the Royal Courts of Justice, Strand, London WC2A 2LL on Monday the 18th day of December 1989.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the said Share Premium Account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 9th day of December 1989.

Macfarlanes
10 Norwich Street, London EC4A 1BD
Solicitors for the above-named Company.

ARCHITECTURE

Where Lutyens meets Wren

A remarkable thing has happened in the City of London. A great commercial building of the 1920's has been renewed and enhanced in a way that sets very high architectural standards for the City. It is a moment to celebrate.

Sir Edwin Lutyens designed Britannic House in Finsbury Circus for the Anglo Persian Oil Company (which became British Petroleum in 1954) between 1920 and 1924. It is undoubtedly one of the most interesting examples of a commercial building of that period and can be favourably compared with other monumental examples like Bush House and Adelaide House.

As a product of the last 20 years of Lutyens's life it is a key example of his development of the classical language. It is imbued with the spirit of Sir Christopher Wren, Baldassare Peruzzi, Antonio da Sangallo and Giacomo Barozzi da Vignola — a veritable lesson in architectural history. It is this richness of its historical references as well as its own superb architectural achievement that makes it such a rewarding and satisfying creation.

BP left the offices in 1966 and there had been various occupiers until Greycoat PLC purchased it in 1986. By a strange quirk of fate BP is to move back into it as its refurbished headquarters in the autumn of 1990. That completion of the circle neatly parallels the geometry of the changes that have been made to Lutyens's original office block to bring up to date.

The relevance of what has happened at Finsbury Circus applies to London as a whole — and indeed to other commercial cities. It is a story worth telling in detail.

The fabric of cities has to change and adapt but this is a process that everyone (or almost everyone) wants to accomplish without serious losses. Britannic House was a listed building and any changes had to follow the careful advice of English Heritage, the City of London conservation officers and, in this case, The Lutyens Trust. This was not seen as a restriction by Greycoat PLC but as a means of ensuring that very high standards were applied to every aspect of the refurbishment.

The architects first appointed by the developers were William Nimmo and Partners. They were subsequently joined by the firm of Peter Inskip and Peter Jenkins who played the leading design role in the project.

The plan for Britannic House is an irregular pentagon. The building occupies a quadrant of Finsbury Circus and in its concave facade to the gardens it echoes the curve of George Dance's Circus, which it partially replaced. From the outside it is both architectural and sculptural. It would not be unreasonable to expect a grand cortile in the centre of what appears to be an Italian town palace. In fact, while Lutyens provided great halls, a grand staircase and a group of main rooms, the rest of his interior comprised ordinary offices, many of them lit from rather dim glazed brick light wells.

But from the outside it is a palace. Clearly Lutyens knew the Palazzo Farnese at Caprarola by Vignola. Britannic House has that same sense of a bastioned plinth and of one palace rising out of another. It is fascinating to note that a preliminary drawing does exist for Britannic House that shows a circular court at the centre. This was not built, nor was the scheme which showed a great tower soaring out of the centre of the block. Vignola at Caprarola has a circular court within the pentagon which has curved façades, using a language of arches and columns. Lutyens provides us with a lively version of this on his Finsbury Circus elevation.

The architects Inskip and Jenkins have intelligently grasped the geometry of both Vignola and Lutyens. They have seen that Lutyens was able to make his Circus front dominate the plan by making an axial line through his central entrance door to the exact middle of the Circus. He takes this line about three-quarters of the way into the building where a variety of major junctions occur. To bring light into the reordered offices today, the architects have followed that line and built an elegant full height curved atrium.

To achieve this great top-lit space it was necessary to make one major sacrifice. Lutyens had his great boardroom bridging the centre of the block on the fourth floor and this has had to be removed and re-erected on a lower floor. It was an adaptation that immediately made it possible to light the centre and provide space for more lifts and create a space that is geometrically related to Lutyens's original ideas. The new atrium is dominated by a stone-faced grid-like wall which seems particularly severe after the riches of Lutyens's marble halls. But it is an appropriate treatment and every element is immaculately detailed.

Every possible care has been taken by Greycoat PLC and their architects to modernise, but also restore. Lutyens gave Britannic House one of his very best staircases; lined with Brescia marbles and barrel vaulted, it is as grand as the staircases of the Viceroy's House at New Delhi. The two entrance halls, one on Moorgate and one on Finsbury Circus, are linked by a 12 ft-wide corridor. It is no exaggeration to say that this is where Lutyens and Wren meet. The implied pilasters, the mirrored openings for bronze lights, and the deployment of brilliant stone carvings all put these spaces into the architectural top rank. We know Lutyens loved St. Paul's; here is a secular version. The restoration is a triumph.

*

The Financial Times is one of the sponsors of the important exhibition of The Drawings of Inigo Jones (1573 - 1752) which opens at the Royal Academy of Arts, Piccadilly, London, W.1. on December 15 and runs until February 25, 1990. This show was first seen in New York, and it will be the first time that all the known architectural drawings of the great master of English architecture have ever been seen together. The famous portrait of Jones by Van Dyck, which was bought by Catherine the Great, is being lent from the Hermitage in Leningrad.

Colin Amery

Britannic House, Finsbury Circus: recently refurbished by Greycoat PLC, it is to become BP's headquarters again

Show Boat

GRAND THEATRE, LEEDS

"A masterpiece" is how Nicholas Payne, General Administrator of Opera North, describes the Kern-Hammerstein musical of 1927 that his company has staged in association with the RSC (with support from Martini & Rossi), and I am inclined to agree. Yet was ever a masterpiece more flawed? *Don Carlos*, with which *Show Boat* shares a hideously complex textual history, is by comparison utterly unflecked.

The main problem is fidelity to Edna Ferber's novel. The long first act, concentrated on the Mississippi, is indeed masterly: four marriages are laid out for our examination against a troubling social background. In the shorter second act, we move to Chicago, 40 years pass, and there are acres of plot to be dispatched in double-quick time — not all that convincingly — amid a flurry of reprises. Yet despite the insertion of an extra interval in the first act in Leeds last Friday (the only *serious* mistake in the whole evening), which emphasised the problem, one still came out of the theatre conscious of having been in the presence of greatness.

If Kern had neither the know-how nor the will to bully Hammerstein, Verdi-like, into shaping the material into more coherent dramatic form, he nevertheless ensured *Show Boat's* immortality with his half-dozen great set numbers; it is not given to every 20th-century composer to write a quasi-folksong, one to enter the world's subconscious, which he did with "Ol' Man River". Yet these show-stoppers do more than just delight: they shape, and render distinctly unsettling the ideas behind the piece.

There is a school of thought that liberal-minded Broadway creators fed contentious material into their shows, sugaring what would otherwise be unacceptably bitter pills with the sweetness of music. If this is so, and I am inclined to agree, then *Show Boat* is a prime example. A musical that starts with the words, sung by a black chorus, "Niggers all work on the Mississippi while the white folks play" is throwing down a gauntlet at the very outset and, even if the way the first two words were changed in Leeds to "Colored folks" lessened the impact, it is perhaps not for me to cavil; the N-word, here used only by rednecks and bigots, was edited out of Glyndebourne's *Porgy* altogether, and is famously the reason for the *Porgy* chorus declining to take part in the EMI recording of *Show Boat*.

But there is no doubt about what Hammerstein and Kern were up to. "River" and its singer, Joe, are as it were the bedrock-norm: leave the Mississippi and disaster ensues. Of the four marriages, Joe's and Queenie's is the one, for all its stresses, that works best; the others are based on compromise and deception and held together, if at all, by the steadfastness of the wives. This too makes *Show Boat* timeless: men are feckless, selfish and unreliable; women are strong, trusting and capable but (*relax, male readers*) they *can't* help loving those men of their's. Times have changed on this score (un-relax).

The greatest strength of Ian Judge's superb production is that all this is ever-present yet never thrust down the audience's gullets — goodness, how one dreads a Harry Kupfer staging. The opening chorus is sung with just the right degree of anger and resentment, no more, and it only needs the notices "Coloreds" and "Whites" at the separate *Cotton Blossom* box-offices to remind us where we are, and where we are still. Yet all is set in the context of Judge's slick, whizzbang direction, in which sentiment and seriousness are as adroitly mixed as are spectacle and economy in Russell Craig's brilliant sets. Looking a million dollars in Alexander Reid's colourful costumes, soloists and chorus (the latter augmented by 14 authentically hard-working black artists) ensure that this is a company show: there are no imported dancers, no interpolated production numbers, and all execute Lindsay Dolan's choreography with proper zest.

There are great performances from Sally Burgess as Julie (the way she is commuting between this and Minerva in the ENO *Ulysses* says everything about her bewildering versatility), from Bruce Hubbard and the magnificent Karla Burns as Joe and Queenie (occasionally risking an element of "period" stereotype in their characterisation, and bringing it off without a hint of embarrassment), and from Linda Kitchen as Magnolia (looking a treat and executing a nifty high-kick in the Charleston). Peter Savidge has a more arduous task with the shadowy Gaylord, but he sings with appropriate smoothness. Susie Lee-Hayward (Mae Jones in Scottish Opera's *Street Scene*) and Simon Green (Tinman in Judge's RSC *Wizard of Oz*) are irresistible as the soubrette couple.

The conducting and playing (Graeme Jenkins and the English Northern Philharmonia) are infinitely better than on the EMI recording: all relish the subtleties of Kern's score (cogent use of *Leitmotiv*, at least one purposeful inversion) as well as its glamour. A great and inspiring evening.

Rodney Milnes

Bruce Hubbard (left)

BOOK REVIEW

The reality of Richard Strauss

Reading *Richard Strauss – An Intimate Portrait*, by Kurt Wilhelm, translated by Mary Whittall (Thames and Hudson, 312pp, £27.50), I felt I was completing a prolonged passage from qualified interest in Strauss's music to abiding love of it. Another chapter in my personal history of belatedness, so to speak, was being written, to join those on Brahms, Dvorak, Rachmaninov and other mid- to late romantics whom I was early taught to regard with distaste. Why it takes so many people so long to overcome their resistance to the great, albeit opulent, music of these composers I am no longer sure. I have forgotten what the puritanical objections actually were.

Kurt Wilhelm's intimate portrait of Strauss helps to make the musical case for him not by means of special pleading or aesthetic analysis but simply by laying before us the verified facts of his life. Wilhelm catalogued the tens of thousands of letters in the Strauss archives at Garmisch, the composer's Alpine villa. Using this material, along with press cuttings, a handful of memoirs by contemporaries and some thousand private photographs belonging to Strauss's son Franz, Wilhelm has created a "mosaic of pictures, quotations and anecdotes" which eminently succeeds in its aim of rendering the composer's living presence.

The incrustations of popular prejudice, not only against Strauss the facile, over-successful romantic – the gorgeous note-spinner without a heart – but against Strauss the putative Nazi collaborator, are scraped away, and the man stands factually before us. What we see is a man who lived to compose, whose domestic arrangements supremely facilitated his composing, a man for whom the stern realities of life were harmony and counterpoint.

He muddled through the Nazi period with the attitude that "I made music under the Kaiser and under Ebert – I'll survive under this one as well," and he certainly made some political blunders (such as standing in for Toscanini at Bayreuth in 1933). But Wilhelm – who was himself imprisoned by the Nazis – presents no evidence that Strauss's behaviour was unacceptable. The world has been harsh in its condemnation of a septuagenarian for not emigrating.

There is plenty of evidence here of Strauss's generosity, probity and even-temperedness. He belonged, like Stravinsky, unlike Mahler, to the type of the happy genius – the compulsively regular worker who rejoices in his craft and seldom looks beyond it. As a young man of 29, recovering in the Mediterranean from severe overwork, he wrote: "True happiness exists only in the isolation of creating at one's desk, or in the reception of the works of our geniuses." He once retorted to a young conductor who was taking a year's leave to write his opera: "What for? The day has 24 hours, 12 for one's duties, 8 for sleep, 2 for meals. That leaves you 2 hours every day for composition. With so much free time, why do you need any leave?"

The volume, written in the form of a continuous, if jumpy, narrative, is crammed with such vignettes. *The Four Last Songs* were composed when a gloomy and disillusioned Strauss was domiciled in the Palace Hotel in Montreux after the war; his son Franz had tried to divert him: "I said to him: 'Papa, give over writing letters and brooding, it doesn't do any good. Write a few nice songs instead.' He didn't answer me. The next time we were there, a few months later, he came into our room, put some scores down on the table and said to Alice: 'Here are the songs your husband ordered.'"

Describing his relationship with his notoriously shrewish wife, Strauss once remarked to Lotte Lehmann: "Believe me, Lotte, the whole world's admiration interests me a great deal less than a single one of Pauline's fits of rage."

Paul Driver

The Visit

RIVERSIDE STUDIOS

Theatre de Complicité's first production of a classic text was preceded in Hammersmith by its reputation. Its première last year at Islington's Almeida Theatre marked an important staging post in the life of an increasingly important company. Apart from the obvious implications in terms of an avant garde company now ready to engage with mainstream literature, Annabel Arden's feisty production is one in the eye for anyone who was inclined to dismiss Complicité's work as physical buffoonery.

Interestingly, its weakest point is in the opening minutes when the comic evocation of waiting villagers rattled by every passing express train delays and distracts from a narrative that thereafter sweeps along, with a quite astonishing ability to people a whole village, and a visiting mafia, with just eight actors.

The coup of the evening is Kathryn Hunter's magnificently sinister portrayal of the avenging millionairess, a designer toad on gilded crutches who struts through the village like an expressionist nightmare of death, her voice gurgling up from a body that seems unnaturally swollen over the spindly prostheses that serve for limbs. For those unfamiliar with Durrenmatt's blistering fable, she has returned to the impoverished village of her birth to blackmail it into killing the man who bedded and betrayed her as a 17-year-old innocent.

Her relentless campaign transforms Simon McBurney's Alfred from a gormless, patently unheroic shopkeeper, with bulging belly and quivering moustache, into something very close to a tragic protagonist, as the loyalties of his neighbours wheel against him. The dawning realisation of his fate, his gibbering inability to board the train to safety, and his final mute submission to the inevitable communal killing twists physical comedy through 180 degrees, drawing out of the laughter a chilling alertness to the brutalities of the *comédie humaine*.

Designers Rae Smith and Paddy Hamilton frame the production with a paint-splattered shroud of clothes, a backdrop that contains a clear reference to the atrocities of Nazi Germany (not least since a similar idea was used in Nick Hytner's *Ghetto*). They do so quite rightly, since the resonance of this fable is its relentlessly logical exposure of precisely the sort of self-deception that led to the extermination camps. Justice means one thing before Clara's arrival, quite another thing after it. One emerges convinced that one has seen a great play, rather than a great production, which after all is just as it should be.

Claire Armitstead

The Mahabharata

Since it is lese-majesty these days to suggest that anything done by the self-exiled Peter Brook is less than perfect, it may be sensible to preface these words about Saturday night's screening of *The Mahabharata* on Channel 4 with the remark that Brook's 1970 production of *A Midsummer Night's Dream* provided the most memorable night in a theatre that I have ever experienced.

The strength of live theatre resides in that benign conspiracy between actors and audience which is re-created slightly differently at every performance. Show a flat stage with a rustic tripod and a light bulb covered in orange cellophane and – if your actors are any good – the audience will happily suspend disbelief and, within moments, be convinced that they really are sitting around a campfire.

The same does not apply to television and perhaps that is why *The Mahabharata*, which lasted a mere six hours, felt as though it went on for a fortnight. There were times when it seemed that the rambling story of two sets of cousins, playing dice, making war and gossiping with the gods, might go on forever. Since character development was virtually nil and earth shattering events came and went with the casualness of a fairy tale, there seemed no reason why it *should* ever stop.

Television is a splendid medium for realism, as proved by everything from *Jewel In The Crown* to *The Bill*. It is also a good medium for dramatic abstraction with the action hanging somewhere in limbo, one of the best examples being ATV's 1974 production of *Antony And Cleopatra*. However, television is also perfectly capable of exploiting a mixture of realism and non-realism, as in *The Water Margin* which used wonderful locations plus technological trickery for magic effects. At its best, but only for brief moments, *The Mahabharata* looked like *The Water Margin*.

Where television falls flat is in attempting to reproduce live theatre in the studio. No matter how many tons of sand you spread around, the studio floor remains resolutely flat; and no matter how many bullrushes you bring in, the lighting and lack of wind ensure that they look like rushes stuck in a studio. This was certainly true of *The Mahabharata*, though when we reached the war in the second half both the staging (with the effect of an entire army achieved, Kurosawa-like, by a couple of ranks of spear carriers disappearing into a mist) and the effects improved.

Was it not tremendously worthy of Channel 4 to help finance the videotaping of this 3,000 year old Indian epic with Brook's multinational cast? Yes, yes, of course. If it is Channel 4's purpose not just to serve minorities but to ensure they attract nothing else, then this is exactly the sort of material that is needed: very, very long, and very, very confusing. It was also very, very violent, the drinking of your opponent's blood being high on the vividly illustrated agenda. But that is OK, it seems, since *The Mahabharata* is not only foreign but a classic. It made Sophocles' Theban trilogy seem lucid and lightning fast.

Christopher Dunkley

ARTS GUIDE

December 11-14

MUSIC

London

London Symphony Orchestra conducted by Leonard Bernstein performs excerpts from Candide, with Jerry Hadley and June Anderson. (Tue and Wed) Barbican Centre (01-638 8891).
National Westminster Choir with the National Westminster Choir conducted by Ian Humphris, with Juliet Booth and Alan Opie, performing Mendelssohn, Dvorak and Smetana. (Thurs) Barbican Centre (01-638 8891).

Paris

Orchestre Colonne conducted by Philippe Entremont, Michel Legrand, with Michel Legrand (Mon). Théâtre des Champs Elysées (47208637).
Jean-Bernard Pommier, piano. Beethoven, Franck, Chopin (Tue).Salle Gaveau (45632030).
Ensemble Orchestral de Paris conducted by Armin Jordan, with Ingrid Haebler (piano). Grieg, Mozart, Schubert (Tue). Salle Pleyel (45638873).
Orchestre de Paris conducted by Günther Herbig, with Misha Maisky (cello). Schumann, Bruckner (Wed, Thur). Salle Pleyel (45630796).
Paul Badura-Skoda, piano. Schubert, Schumann, Chopin, Brahms(Thur). Salle Gaveau (45632030).
Orchestre National de France conducted by G. Schwarz. Haydn,R. Strauss, Webern, Scriabine (Thur). Radio France, GrandAuditorium (42301516).

Amsterdam

Netherlands Philharmonic Orchestra conducted by Hartmut Haenchen. Mahler (Mon, Tues). Concertgebouw (718 345).
Royal Concertgebouw Orchestra conducted by Charles Dutoit, with choir and soloists. Berlioz, Saint-Saens, Holst (Wed, Thur). Concertgebouw (718 345).

Brussels

Valery Afanassiev and other pianists with Misha Maisky (cello) play Brahms, Beethoven, Liszt, Rachmaninov and Schubert. Yuri Egorov Foundation Benefit concert. Palais des Beaux-Arts (Mon).

Vienna

Kuchl Quartett. Beethoven, Leitermayer, Brahms. Musikverein. (Mon).
Alban Berg Quartett. Mozart, Lutoslawski, Schubert. Konzerthaus (Mon, Tues).
Wiener Symphoniker conducted by Alain Lombard. Respighi, Paganini, Brahms. Musikverein (Wed, Thur).

Milan

Cecile Ousset paino recital. Beethoven, Liszt, Ravel and Rachmaninov (Wed). Conservatorio G. Verdi (76001755).

Rome

Scottish Chamber Orchestra conducted by Yuri Ahronovitch in Poulenc, Shostakovich and Goldmark (Mon, Tues). Auditorium in Via Della Conciliazione (6541044).

Frankfurt

Salvatore Accardo (violin) and Bruno Canino (piano). Mozart, Schubert and Prokofiev (Mon). Alte Oper.
Bruno Leonardo Gelber piano recital. Beethoven (Tues). Alte Oper.

Cologne

Opera Gala with the Bolschoi Theatre and the Kirow Theatre (Leningrad). Arias from *Boris Godunov, Eugen Onegin, Turandot, Aida* and *La Traviata* (Thur). Philharmonie.

Madrid

Belgrade RTV Symphony Orchestra conducted by Vladimir Kranjcevich. J.S.Bach (Wed). Auditorio Nacional de Musica (337 01 00).
Madrid Symphony Orchestra conducted by Luis Aguirre, with Roberto Mendoza (violin), Brigida Rodriguez Uria (cello), Rosalia Pareja (piano). Beethoven, Verdi, Bizet, Poncielli (Thur). Auditorio Nacional de Musica (337 01 00).
Budapest Streichsolisten. Farkas, Jardanyi, Weiner, Bartok.(Thur). Auditorio Nacional de Musica (337 01 00).
Ileana Cotrubas. Enesco, Wolf, Brahms, Mozart,Massenet, Puccini, Donizetti (Thur). La Union y el Fenix(338 24 82).

Barcelona

English Chamber Orchestra conducted by Jacques Delacote, with Agnes Baltsa (mezzo-soprano). Rossini, Mascagni, Donizetti (Wed). Palacio de la Musica Catalana (301 11 04).
Daniel Barenboim (piano). Bach programme (Thur). Palacio dela Musica Catalana (301 11 04).

New York

Musica Sacra conducted by Richard Westenburg. Handel (Mon). Avery Fisher Hall (874 6770).
New York Philharmonic conducted by Giuseppe Sinopoli, with Gil Shaham (violin). Mussorgsky, Paganini, Schumann (Tue); and conducted by Zubin Mehta, with Gerry Mulligan and the Mulligan Quartet. Beethoven, Mulligan (Thur). Avery Fisher Hall (874 6770).
Isaac Stern (violin), Yo Yo Ma (cello), Emanuel Ax (piano). Brahms (Mon). Carnegie Hall (247 7800).

Washington

Jerome Rose piano recital with Phyllis Bryn-Julson (soprano) and Theodora Hanslowe (mezzo-soprano). Chopin programme (Tue). Kennedy Center Terrace Theater.

Chicago

Chicago Symphony Orchestra conducted by Leonard Slatkin, with the Chicago Symphony Chorus. Stravinsky (Thur). Orchestra Hall (435 6666).

Tokyo

Ensemble Wien-Berlin. Reicha, Ibert, Danzi, Bozza, Francaix. Suntory Hall (Mon) (289 9999).
Boston Symphony Orchestra conducted by Seiji Ozawa. Mahler. Tokyo Bunka Kaikan (Mon). And with Anne Sophie Mutter (violin). Suntory Hall (Tues). Strauss. Bunkamura, Orchard Hall (Thurs) (289 9999).
Takacs String Quartet. Mozart, Bartok. Casals Hall (Wed) (403 8011).
Japan Philharmonic Orchestra conducted by Ken'ichiro Kobayashi. Beethoven's 9th symphony. Suntory Hall (Thur) (234 5911).

SALEROOM

Treasures from the deep

The salerooms wind down for Christmas this week with an oriental flavour. The big auction is at Sotheby's tomorrow when the early Chinese works of art bought by the British Rail Pension Fund in the 1970s should make the retired engine drivers, porters, etc. over £4m better off. An exceptionally vibrant Tang horse, stolen then recovered in Hong Kong should contribute £1m to the total.

Mike Hatcher, whose excavation of the "Nanking Cargo" of 18th century export porcelain destined for the Dutch market realised £10m in 1986, has been diving again. He came across a trading vessel which sank around 1400 with a cargo of Thai domestic pots and crockery. The 200 pieces to be sold at Christie's this evening carry very modest estimates, and a total of £10,000 in anticipated, which will go to support Barnardos. The ceramics are often encrusted with shells and other sea bed detritus, which adds to their charm.

The main event of the week, however, and the potential causer of a national scandal, is the sale by Sotheby's on Thursday of the Trumbull Papers. This archive contains one of the finest collections of state papers, from the 16th-18th centuries, ever to appear on the market. It should have been sold, or given, to the British Library but the Marquess of Downshire hopes to make £2m by scattering them to the world.

At Christie's tomorrow what is considered to be the finest ancient mosaic to appear at auction for many years comes under the (figurative) hammer. It is Roman; dates from around 100 AD; and depicts a group of brightly coloured fish and crustacea mounted on a 19th century gilt frame. It carries an estimate of up to £50,000.

Antony Thorncroft

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Germany and Europe

THE TWO main decisions of the Strasbourg summit were the convening in a year's time of an Inter-Governmental Conference (IGC) on economic and monetary union, and the declaration endorsing German unity.

The former, which had been a source of tension between France and West Germany and within the West German government right up to the eve of the conference, in the end went through with relatively little discussion and hardly more than formal British opposition. The latter, which contains nothing that was not already the official policy of all twelve signatories, was none the less the subject of much bitter dispute during the conference.

The fact that both went through was clearly the result of a Franco-German deal, but not a fully explicit one. Both issues have been put on the agenda for future meetings rather than resolved. The relationship between them remains crucial, but unclear.

What is really at stake is the future shape and nature of the European Community. Is "deepening" (closer integration) intended as a device to prevent German unity? If so, none of its supporters dare say so publicly. Yet clearly their sense of urgency about it is heightened by a certain instinctive unease on the German issue.

Apprehension

Has the prospect of German unity given the West Germans second thoughts about "deepening"? If so, none of their leaders dare say so publicly. But the way Chancellor Kohl came out with his ten-point programme for German unity without consulting his European partners or Nato allies, and the way he sought until the last minute to avoid starting the IGC next year, have inevitably strengthened the connection in his partners' minds. The effect has been to make their support for German self-determination more grudging and apprehensive than it need be.

Mr Kohl's position is further weakened by his inability to come fully clean on the issue of Germany's eastern border. None of his allies can seriously contest the proposition that ultimately the German people have the right to remove the border between the two German states, if that is what a majority on both sides of it turns out to want. Equally, though, none of his allies has the slightest interest in raising doubts about the permanence of the present German-Polish border (the Oder-Neisse line).

Pandora's box

Legally it may be true that this issue cannot be finally buried until a peace treaty is signed (something which, under West German law, only a united Germany has the right to do). But politically it could be settled by a clear and unanimous pledge of all the main West German political parties. Mr Kohl apparently does not feel able to give such a pledge before next year's general election. But he must realise that until he does so the qualms of his allies will persist. The last thing any of them wants is to reopen the Pandora's box of east European frontiers just when Pax Sovietica is coming to an unlamented end.

In these uncertain if hopeful times the closer integration of western Europe is indeed desirable, and should not be seen as excluding German unification. (It is West Germany's obligations to Nato, rather than to the EC, that are more likely to provide an obstacle.) Whether economic and monetary union is the most urgent form of integration to be pursued is debatable in principle, but it is clear that politically it has become the litmus test of each member state's commitment. The IGC will have to achieve Emu in some form (not necessarily the precise form envisaged in the Delors Report). The Germans are right, however, in insisting that it also address the problem of democratic accountability in the EC, with which must be coupled the distribution of executive power.

It is sad that Britain appears to be playing only a marginal role in these debates. It should have much to contribute both to the future institutional shape of the Community and to the diplomatic task of preventing a revival of Franco-German hostility. Nothing could be more damaging than such a revival to the future prospects of the Community, and indeed of Europe as a whole.

Flawed plan for student loans

THE STUDENT Loans Bill is a deservedly unpopular part of the UK Government's legislative programme. Mr John MacGregor, the Education Secretary, is right to argue that students should contribute towards the cost of their higher education but wrong to rely on mortgage-style loans administered by the private sector.

There are two powerful arguments in favour of student loans. The first is that a university education is often a very profitable investment: in social sciences and engineering, the Department of Education claims the personal financial return can exceed 30 per cent. Taxpayers, who on average earn less than graduates, should not be expected to bear the full burden of educating the nation's brightest youngsters.

Loans are also potentially a means of widening access to universities. International comparisons suggest that the taxpayer subsidy per student is unusually high in the UK but that participation rates in higher education are unusually low. The two ratios are not unconnected. Many commentators now accept that the financial arrangements for higher education introduced in the 1960s – which eschewed both loans and tuition fees – guaranteed that the system would remain élitist. The argument is that if the subsidy is spread more thinly, a given higher education budget will support a larger student population.

Disincentive effects

This is the theory. But it would be naive to ignore disincentive effects. If the cost to the individual of higher education is sharply increased, demand is likely to decline, particularly from disadvantaged families. At present, 22 per cent of all students are drawn from the top socio-economic class even though it accounts for only 7 per cent of the total population; a mere 5 per cent of students are drawn from the bottom two classes which account for 23 per cent of the population. The danger is that loans will accentuate these class divisions. A poll by the National Union of Students suggests that nearly a quarter of youngsters in the lowest socio-economic classes who currently intend to go on to higher education will not do so if the loans bill is enacted.

A good loan scheme should aim to minimise administration costs and the risk of default, as well as the all-important disincentive effects. Yet Mr MacGregor's proposals score poorly on all three criteria. Formal contracts with banks and regular mortgage-style repayments following graduation seem almost guaranteed to deter students from poor backgrounds. Administrative costs will be high as the banks will have to monitor large numbers of small payments over many years. And default rates could pose a big challenge in future years. It is hardly surprising that at least one of the big four clearing banks has withdrawn from negotiations.

Debt collectors

Private sector involvement in the scheme is already little more than a façade. The banks will not be lending their own money nor playing any role in assessing credit risks. They will simply act as debt collectors for central government. Since the cash for loans has to be provided by the Treasury and the scheme is expensive to administer, no cumulative net savings in public expenditure are expected for 25 years. This particular loan scheme will thus not help finance an expansion of higher education until well into the 21st century.

There is still time to consider alternatives. The obvious way to minimise disincentive effects, administration costs and default risks would to use the Government's own tax and social security machinery to collect loan repayments. Graduates could simply be required to pay a slightly higher rate of national insurance contributions until their debt is extinguished. The fact that Mr MacGregor has refused to evaluate such options suggests he is more interested in teaching students the "financial facts of life" than in widening access. The UK will require a more robust and flexible loan scheme if participation rates are really to double in the next quarter century.

US Defence Budget Authority
$bn (Fiscal 1988 dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Military personnel	68.1	69.8	71.8	73.4	74.9	78.1	75.4	80.4	80.2	80.0
Operation & maintenance	62.6	68.0	72.3	75.5	79.4	91.1	88.7	89.2	88.6	88.3
Procurement	50.3	63.1	79.3	94.5	97.9	113.6	105.2	88.3	85.1	81.5
Research & development, test & evaluation	19.1	21.5	24.6	26.9	30.6	36.9	38.5	39.8	39.1	38.8
Military construction	3.1	4.4	6.0	5.3	5.2	6.5	6.1	5.6	5.7	5.9
Other	3.0	5.2	4.6	3.9	5.4	9.5	9.1	6.1	4.3	3.8
TOTAL	206.2	232.0	259.0	279.5	293.4	335.7	321.0	309.2	303.0	299.3
OUTLAY	199.8	209.0	224.0	240.9	250.7	286.1	302.3	304.3	297.3	293.9

Source: US Department of Defense/ Office of the Secretary of Defense

Lionel Barber on what peace in Europe means for US defence spending

Gramm-Rudman meets Gorbachev

The Pentagon is about to enter a painful new era, the era of Gramm-Rudman-Gorbachev.

The signs of this are becoming ever more evident in Washington: the Red Army choir sings "The Star-Spangled Banner" at the Kennedy Centre; Marshal Sergei Akhromeyev, military adviser to President Gorbachev, gives evidence to the House Armed Services committee; and, this month, Mr William Kaufmann of Harvard and the Massachusetts Institute of Technology sets out in a report to cut the US defence budget in half by the year 2000.

The disintegration of communism in Europe, the weakening of the Warsaw Pact, and the apparently diminished Soviet threat – all these factors are combining to undermine the rationale for a $300bn defence establishment, 60 per cent of which is designed to fight a land-war in Europe which, at most, appears remote.

At home, the Pentagon finds itself on the defensive too. The Gramm-Rudman budget balancing law mandates the Bush administration to find an estimated $40bn in savings – possibly more – to meet next fiscal year's budget deficit reduction target of $64bn. With President George Bush showing no sign that he is willing to modify his 1988 election pledge not to raise taxation, the scope for manoeuvre is limited.

Yet without new revenues, there seems little hope of paying for new domestic programmes increasingly favoured by Congress. "Defence," says one top budget policy-maker, "could be the real victim next year." Admiral William J. Crowe, recently retired as chairman of the Joint Chiefs of Staff, the nation's top military officer, agrees: "The wolves are circling," he says.

The man charged with keeping the wolves at bay and reshaping the nation's 2.1m armed forces to meet modern demands is Mr Richard Cheney, US Defence Secretary, a former youthful White House chief of staff in the Ford administration who served for ten years as a Republican Congressman for Wyoming.

Last month, Mr Cheney revealed in several interviews that he was looking for cuts in defence spending of $10bn to $15bn for fiscal 1991 (which begins next October). He also disclosed he had instructed the US Army, Navy, and Air Force to seek ways to reduce planned spending by up to $180bn over the following three years.

For those who doubted he was serious, Mr Cheney later dropped hints that he was examining the possibility of US troop cuts in Europe. These cuts, he said, would take place only in consultation with the Allies; and they would occur only after the expected conclusion next year of the conventional forces (CFE) talks in Vienna between Nato and the Warsaw Pact.

It seemed a reasonable response to those in the US who had criticised President Bush for failing to spell out his pledge of moving beyond the post-World War II "containment" policy of the Soviet Union. Abroad, however, Mr Cheney's remarks unsettled allies such as Britain who see a large US troop presence in Europe as a force for stability during the current upheaval.

Fears grew when, a few days later, the US armed forces leaked draft plans aimed at showing the impact of Mr Cheney's proposals. These envisage the slashing of military personnel by 250,000 men and women; the elimination of three active duty Army divisions; the grounding of five Air Force tactical wings; and the withdrawal of 62 Navy ships from service. But how could Mr Cheney, who only a few months ago expressed doubts about Mr Gorbachev's ability to survive, suddenly become Secretary for Disarmament?

The plain answer is that he has not. The canny former Congressman was playing to a domestic – not an international – audience. In effect, he had calculated that he had to appear willing to countenance cuts if he was to have any influence over next year's budget discussions with Congress. Indeed, on close inspection, there is less to Mr Cheney's proposals than meets the eye.

Firstly, Mr Cheney's cuts in planned spending merely correct the unrealistic assumptions inherited from the previous administration, specifically from Mr Caspar Weinberger, President Reagan's indestructible Defence Secretary. The mismatch between planned spending over the next five years and Congressionally approved funds could amount to some $150bn. Yet as Mr Larry Korb, a former Pentagon official and budget specialist at the Brookings Institution, points out: "Planned spending cuts are only paper cuts."

Second, as the table above shows, US defence spending has been falling in real terms since 1985, when Congress finally put the brakes on the Weinberger juggernaut. Since 1985, Congress has been steering in a different direction. While Democrats and Republicans acknowledge that Mr Reagan's policy of "spending the Soviets into the ground" seems to have worked, they now want to put more money into domestic programmes such as education and drugs control.

Third, for all the talk about cuts, the Bush administration will propose an increase in defence outlays – actual spending – in fiscal 1991. This is because large balances of budget authority (which allows government to sign contracts and pay bills when they come due) remain from previous years, and are, so to speak, "locked in." However, the rise in outlays amounts to a cut in real terms, and it foreshadows even deeper cuts in fiscal 1992.

Hence the scope for manoeuvre this year is limited – which in turn explains why Mr Bush and Mr Cheney are now desperately trying to play down any notion that defence cuts will bring a "peace dividend" which can be spent by Congress ahead of next year's mid-term elections.

In the coming months, Mr Cheney's main difficulty will be to prevent the budget process spinning out of his control. He faces challenges from the armed forces, which in the past have fought to the last widget to protect their own programmes; and he faces a formidable tussle with Congress.

Defence – because it supplies jobs, plants, and bases to local communities – is more than simply a question of national security. Critics may argue that as an economic booster it is over-rated; but when it comes to votes for new weapons programmes, most Congressmen find it hard to resist the military's demands.

TOP FIVE CONTRACTORS

Company	Main work	Total* $m
McDonnell Douglas	Aircraft	$8.008
General Dynamics	Aircraft	$6.508
General Electric	Engines	$5.603
Tenneco	Carriers	$5.058
Raytheon	Missiles	$4.036

*Of prime contract awards, fiscal 1988

Source: US DoD

Under President Reagan, the politics of the defence pork barrel was elevated to a fine art. One Democrat Congressman recalls Rockwell Corporation showing how its B-1 bomber programme had subcontracted work to 48 states in the Union, thereby rendering it virtually invulnerable. The Strategic Defence Initiative – Mr Reagan's "Star Wars" plan for a partially space-based missile shield against Soviet nuclear attack – went one better, developing an international network from Europe to Japan and Israel.

This year, Mr Cheney discovered how difficult it is to break the defence-jobs nexus and set his own priorities. He proposed cutting several major weapons programmes including the V-22 Osprey high-speed helicopter manufactured by Boeing and Bell-Textron, and the F-14 fighter jet built by Grumman on Long Island. He won in the Senate, but was defeated in the House of Representatives, after a formidable lobbying effort led by the Texas and New York delegations.

Mr Sam Nunn, the influential Democrat chairman of the Senate Armed Services committee, agrees that next year's challenge will be to look beyond the immediate fiscal constraints and make cuts in relation to the reduced threat from the Soviet Union. Hence his insistence on a realistic "threat assessment," coupled with an examination of how the changes in Europe may affect the deployment of US forces overseas (including in Japan and South Korea).

Similar futuristic thinking is underway among the major US defence contractors. Many have seen their shares shot down by panic selling in recent weeks, the result of misunderstanding Mr Cheney.

The number of US companies who rely exclusively on the defence business is very limited. General Dynamics looks like an obvious exception, but in fact it is highly diversified. Raytheon has been hit hard, but barely half of its business is directly related to the military. More threatened are companies such as Lockheed, McDonnell Douglas (whose civil and military businesses have nosedived) and Northrop, whose B-2 Stealth radar-evading bomber costs more than $550m per plane. Pentagon plans to buy 132 B-2s now look somewhat ambitious.

Mr Donald Atwood, the former General Motors executive who serves as Mr Cheney's deputy, has given several public warnings that "consolidation" in the US defence sector is not only desirable, it is inevitable. "Today's industry is too diverse," agrees Mr Gary Reich, Shearson Lehman Hutton's veteran analyst. "There are too many companies, too much excess capacity, not enough programmes to go around. This would have had to change even if Gorbachev hadn't been invented."

For mergers to take place, there have to be buyers. Many companies are wary, however, of purchasing defence businesses whose balance sheets have been severely stretched by the demands of funding weapons programmes during the Reagan military build-up (some of which may now never materialise). Moreover, dealing with the Pentagon (and the 100-plus Congressional committees which claim jurisdiction over the Defence Department) is not every chief executive's chosen path to glory.

The long-term winners are likely to be those companies which are able to deliver the sophisticated electronics which the US military will need in the 1990s. (Some of these no doubt will be used to monitor the impending arms control agreements which Mr Bush and Mr Gorbachev seem so keen to clinch next year). Losers, particularly in a tighter budgetary environment, could be foreign companies. "There will be tremendous pressure from Congress to Buy American," says Dr Loren Thompson, a defence analyst at Georgetown University.

For the moment, however, President Bush, is looking at the shorter term; and here the twin forces of Gramm-Rudman and Gorbachev intersect.

At the Malta summit, Mr Bush agreed to accelerate negotiations with the Soviet Union at the Strategic Arms Reduction Talks (Start) in Geneva, with the aim of each side agreeing to cut its strategic nuclear arsenals by 50 per cent. At the same time, he is pressing the Nato allies to bury their differences so the West can reach a conventional forces agreement with the Warsaw Pact by next year.

Why the hurry? At one level, Mr Bush wants to play peacemaker, seeking advantage from the Soviet Union's own desire to reduce military spending. But some also see arms control as the necessary impetus to shifting US military strategy which is still stuck in the era that immediately followed the Second World War.

Mr Bush's problem is that under the pressure of Gramm-Rudman budget targets, Congress may start slashing the budget before a new defence policy can be agreed. "Wouldn't it be ironic," speculates one mischievous senior official, "if the President had to raise taxes to prevent defence cuts?"

OBSERVER

No rush to judgement

■ The Press Council – the self-regulatory body of the British Press – has given its ruling today on a case relating to Susannah Lamplugh, an estate agent who was last seen in south-west London on 28 July 1986, and is missing, presumed dead.

Anyone who wants to appreciate how difficult and delicate these decisions are should read the ruling in full. Suffice it to say, however, that the question of what should or should not be published in a newspaper cannot be easily defined.

Shortly after Susannah Lamplugh disappeared, her parents entered into an agreement with Faber and Faber for the publication of a book about the circumstances. It was written by Andrew Stephen, then of the Sunday Times Magazine, more recently of The Observer newspaper.

Stephen and the Lamplugh parents very quickly began to differ about the interpretation of the story. Nevertheless, the book went ahead, accompanied by a disclaimer saying that the parents disassociated themselves from the contents, although the royalties were payable to them or to the Suzy Lamplugh Trust – not to Stephen.

The complaint to the Press Council by the parents was not about the book, but about an article that Stephen subsequently wrote for the Guardian on the story behind the book. The article concerned matters that had been discussed by Stephen, the parents and legal advisers while the book was being written and which, it was thought, had been resolved.

The Press Council did not receive the parents' complaint until five weeks after the article had been published. And the Editor of The Guardian did not receive details of the complaint until eight weeks after publication of the article. When he did hear of it, he offered to consider publishing a letter "of reasonable length giving your comments and reaction". The Press Council ruling says that there is no evidence of the complainants responding to that offer.

The whole business then took 13 months of the Press Council's time to adjudicate. Not surprisingly, in my view, the Council has announced today that the complaint is not upheld.

Others may disagree, but I am glad to find the Press Council saying that complainants are not always right and that there must be better ways of settling disputes than going through such lengthy procedures: like, for example, complaining at once.

Kaunda stays

■ Twenty-five years after independence, President Kenneth Kaunda has decided that Zambianisation has its limits. The top job at the country's Central Bank is being given to a foreigner, Jacques Bussières, a Canadian seconded by his government.

Last month Kaunda fired Francis Nkhoma, the fourth holder of the job in as many years, amid allegations of corruption. "Zambianisation has not succeeded in this particular area. We have learned the hard way and we must admit it," the President said last week in a televised interview with local journalists.

Bussières will launch a two-to-five year training programme: "We hope at the end of this period the norms and ethics of central banking will be established," Kaunda said.

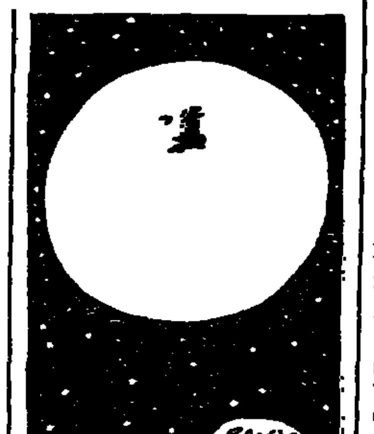
Meanwhile, the President of Zambia stays put.

Treasury man

■ This year's Treasury Christmas card is dedicated to George Joachim Goschen, Chancellor of the Exchequer 1887-1892. He was a director of the Bank of England at the age of 27, served – like Winston Churchill – in both Liberal and Conservative Cabinets as First Lord of the Admiralty, declined invitations to become Viceroy of India or Speaker of the House of Commons and ended his days as Chancellor of Oxford University.

In between, he resolved the Barings crisis, reduced the national debt and brought down income tax to sixpence in the £. He also invented estate duty.

The card says that he "practised rigorous economy in the nation's finances while supporting important social initiatives such as free education". It is, of course, possible that the card was chosen by Nigel Lawson, though it is signed by his successor, John Major.



Thatcher's Britain

Water, water

■ The "be an H2Owner" water privatisation has been the most complex of its kind so far, with 10 separate companies being sold off in one go. Ten computers were needed at the offices of Schroders, the merchant bank advising the government on the sale, to work out how to allocate shares among the 2.7m people who applied. The computers, in a room called "the bunker", started whirring at crack of dawn on Saturday and finished late yesterday.

After the weekend's work, one of the advisers to the issue produced a number of T-shirts for those involved bearing the slogan: "Thank God it's all H2Over". No doubt someone is already working on a sparky slogan for the electricity privatisation.

Last trek

■ Communism may be having its problems in the rest of the world; but it is alive and well in South Africa. While membership lists are shrinking east of the Elbe, the South African Communist Party must be unique in registering new converts every day.

When two Soviet academics addressed a public meeting in Johannesburg recently – the first Soviet citizens to visit the country in over 30 years – they got short shrift from the local comrades for praising perestroika.

When one questioner asked why they had refused to invade East Germany to protect socialism, Soviet imperturbability cracked: "If you had lived in my country as long as I have lived there, you would not ask such a question," said Prof Irina Filatova of Moscow University.

Scotched

■ From a card to a Kensington reader from her husband who is on a fishing holiday in Scotland: "It has been so cold and windy that today I am in bed recovering from a slight case of whisky."

Hazel Duffy begins a series on Britain's changing Civil Service

Between radicalism and tradition

What could prove the most radical changes in Britain's civil service since the great 19th century reforms are now firmly under way. Ten of Whitehall's new semi-independent civil service agencies have been set up since Mrs Thatcher gave her blessing to the plan – known as Next Steps – in February 1988.

These are mostly small fry, from Companies House, which documents all company returns, to one which manages the Historic Royal Palaces. By next summer, however, there should be 20 agencies, some big.

The Employment Service, which runs the job centres and the unemployment benefits offices, will become a Next Steps agency under the Employment Department. An information technology agency will be created to handle the computing and communications of the Department of Social Security (DSS). This will be followed by the Benefits agency, which will also come under the DSS.

Within a few years, 75 per cent of government business could be carried out in agencies, which will have a degree of independence from their parent departments. They will agree objectives with the departments but be free to spend their budgets without constant recourse to Whitehall. They will recruit their own personnel and, in some cases, pay them as they see fit. Her Majesty's Stationery Office – HMSO, the government printers – is already negotiating a separate pay and grading structure.

Discreet power games are taking place as civil servants haggle over who will make policy and allocate resources. The division of responsibilities between the agencies and their departments will determine whether the Next Steps programme marks a decisive change in the way the civil service is organised. If the departments hang on to more responsibility than is necessary, the change will be more cosmetic than real.

"The real change will affect the departments, what is left of them, much more than the actual agency," says Mr Peter Kemp, who heads the small Next Steps project team in the Cabinet Office. "The agency will go on, but the department has got to change its ways. They will have to stand back and trust in the people they appoint to the agencies."

Whitehall officials admit to a rise in "tension" as frameworks for the agencies are drawn up. "The tensions come when you try to write it down," says one official engaged in the negotiations.

Departments are used to fighting their corners, and battling with the Treasury. But this time, the stakes are high: nothing less than the way things are done in the civil service.

One of the potentially contentious areas is policymaking. Should the agency be purely executive, or have some policy responsibility? The mandarins have always cherished their role of giving policy advice to ministers, though in recent years they have had to share it with other ministerial advisers. Now the chief executives of the bigger agencies will want to grab a share of policymaking. They say their experience can result in better decisions.

So far, the competition has not been a problem because the agencies have not stepped on sensitive toes. Mr Stephen Curtis, chief executive of Companies House, one of the agencies set up by the Department of Trade and Industry, says he *is part of the policy* process. "We are one of the parties making suggestions in relation to current changes in company law."

Employment policymaking could be more contentious. Mr Mike Fogden, chief executive designate of the agency the Employment Service will become, was in the middle of unifying the administration of the jobs centres and the unemployment benefits offices when Next Steps was published. It is a fair bet that he will wish to be involved in policymaking.

His agency is in some ways a special case, however. The Employment Service already enjoys a degree of independence. For its clients' sake, it has attempted to distance itself from the bureaucratic image of government. Its role is to get people off the unemployment register, either into work or training. Politically, it has an important part to play in getting down the unemployment figures.

The Social Security Benefits agency looks likely to conform to a more conventional split between the department – which will take responsibility for policy – and the agency, which will look after administration and dealings with the public.

The Social Security Department embodies all that is traditional and hierarchical in the civil service. It has also been through a major policy review on benefits, which has now been implemented. Another big policy change before the next general election is not in prospect. Therefore the Benefits agency can be cast firmly in the operational mould. The power will remain at the centre.

Mr Nick Montagu, principal establishment officer at the DSS, is helping to set up the agencies. "In any organisation, whether here or in Marks and Spencer, there are tensions between branches and head office," he says. "We do not want the agency to be cut off from policy." He stresses that agencies will evolve. "The Benefits agency in 1991 will not have all the freedoms and discretions that will be there five years later."

Some observers believe that refusal to cede power to the planned Benefits agency would result in a compromise ill-suited to unleashing the latent managerial energy referred to in the Next Steps report. They say that giving agency chiefs responsibility without power will only frustrate them.

A second issue at stake is the financial autonomy of the new agencies. The Royal Mint and HMSO had already been set up as trading funds, which means they can carry over profit from one year to the next. Legislation to allow more trading funds is promised in this Parliamentary session.

Other bodies have more limited financial freedoms. Some have the authority to juggle funds between various pots – like salaries and accommodation – within the year. But most cannot tide over any money saved on an annual basis. If they do have money left over, the "mad March spend" starts in a rush to spend before the end of the financial year.

The creation of agencies has forced the Treasury to grapple with relaxing these rules while retaining control over public spending. It looks as if most agencies will be given the freedom to carry over their surpluses from year to year.

Initially, the Treasury had its doubts about Next Steps. More recently, it has held out a helping hand to the new agencies. Officials in some departments which are setting up agencies have even been asked by the Treasury: "Do you think you are going far enough?"

Two years ago, the Treasury recaptured from the Cabinet Office the lead responsibility for running the civil service. Much of its effort has been concentrated on pay. Performance pay now covers almost all the non-industrial grades. Pay agreements which offer considerable flexibility have been introduced for senior grades.

One question for the agencies of the future is: how much responsibility will they be given for the pay and conditions of their own staff? If this freedom is extended to the bigger agencies, the uniformity of civil service pay and conditions would be eroded. The argument in favour turns on the issues of flexibility and efficiency. Despite the spread of computers in the civil service, much of government work will continue to be predominantly clerical. The costs of that are enormous – and so are the rewards for for efficiency or penalties for poor management. Total running costs of the benefits agency will be in the order of £2bn a year.

The Next Steps reforms are the latest stage in a series of changes the Government has made. At first, Mrs Thatcher's efficiency drive focused on cutting overstaffing. The technique was often crude. It demoralised the clerical staff in particular, and also some senior civil servants who thought they did not have the resources to do a decent job.

The Financial Management Initiative, which followed, was more sophisticated. Delegated budgets were all the rage. It is now accepted in Whitehall, however, that in these stages too much attention was paid to financial matters and not enough to management. The agencies 'programme is in part a response to that concern.

Other forces for change are also at work, dictated by outside factors:

● Whitehall is undertaking large-scale relocation. Eighty per cent of civil servants already work outside London, partly as a result of the 1960s and 1970s relocations, which were almost entirely of the departments' paper-processing "back offices." In the 1990s, they will be joined by most of the headquarters jobs. One side effect will be to accentuate the division between administrative work based in the provinces – from where most of the agencies will be run – and policy work, based in London.

● Like big companies, the civil service realises that the "career for life" is out of favour with young people. The holes in staffing will be filled by more exchanges with the private sector at middle management level, more women and more part-timers. The agencies are part of this process. So far, the chief executives of the agencies have come mostly from the civil service. There need to be outsiders filling these jobs as well. The Treasury is keen that jobs should be advertised nationally, and to bend the rules so as to pitch salaries where outsiders will take them.

Agencies are the key to far-reaching changes in the civil service. They are being watched with close interest by governments worldwide, equally keen to cut costs while not making unpopular cuts in public services. But it is still not clear whether civil service caution will cripple the project's radicalism.

• *Other articles in this series will apear on the UK News pages.*

LOMBARD

How not to treat young engineers

By Max Wilkinson

I FELT A strange sad fellowship with the ranks of disillusioned engineering graduates uncovered by an extensive survey published last week.

Can it really be that manufacturing companies have learned nothing in the 30 years since I presented myself with great expectations and a cheap slide rule at the Stygian gates of Associated Electrical Industries in Rugby? The lessons were so obvious. then. They have since been reinforced by many studies and the defection of thousands of dissidents of which I was only one.

Then, as now, a shortage of engineers followed a period of industrial growth. Those war babies with maths A levels were in a comfortable sellers' market, so I was able to turn down the General Electric Company's offer to pay for my university training in favour of AEI. ("We know little of Weinstock," the careers man advised, "but AEI is a sound British company".) On such terms, the chance to study in the glorious tradition of Brunel, Whittle and the heroes of radar seemed a fine thing to a school-leaver.

But the six-month pre-university "work experience" was a fiasco, and it seems not all that untypical, even by today's standards. About a dozen of us, heads still vaguely buzzing with theoretical physics and the mysteries of infinite series, were sent off at once to file bars of metal for a week or three; time slowed to a crawl in the apprentice training shop where grime on the high windows dulled natural light to a yellowish stain; and we all longed for the steam whistles to wail out the daily release.

Filing was followed by a week or so bashing copper discs into quite pleasant concave shapes, but I soon realised that this was not my vocation in life either. Then came weary months making, measuring, discarding and remaking test pieces on elderly lathes and milling machines which must have been retired from active service long before.

All splendid discipline, no doubt, if there had been more meat in the stew. During trips to the tech we relearned maths we had done at school; we were given an infant's guide to economics, devoid of all context or difficulty, and then the climax: a block diagram of the management structure. We learned almost nothing about what graduate engineers would actually do – or be paid . Our minders in Personnel were steadfastly vague, and I began to believe, with a sick foreboding, that they did not actually know.

But the main defect, which it seems still afflicts a new generation of graduates, was the failure to inspire. Like most 18-year-olds we were eager for a bugle call, at least to some higher cause, be it only the glorious defeat of Arnold Weinstock (though history was to award him the laurels). Surely, we might have been given an hour or more with some young engineers bubbling with the excitement of building turbines ten times the power of their pre-war predecessors. A mere glimpse of the maths would have spurred us, or perhaps a few prescient remarks about the amazing power of computers, or some words with the sales director off to thrash the upstart Japanese in a distant market. Did these people exist? Or was it all like Kafka's Castle, a hum of directionless activity? We never discovered; and many of us did not return for an answer.

Perhaps poor deceased AEI was a sorry exception? It seems not entirely; last week's survey by Imperial Ventures turned up all the familiar complaints and above all the general failure in Britain to acknowledge the importance and status of engineers for the betterment of society, in sharp contrast with the tradition in France, West Germany and Japan.

But now British companies are asking with renewed anxiety: "Why don't engineers love us any more: why don't sixth formers court the engineering faculties?" The answer, according to the survey, is unambiguously clear: "Because you don't treat them right." The remedy is equally obvious, though it will take time: pay them more. Respect, status and improved training will follow slowly, and maybe at last, better corporate performance.

LETTERS

Wage control

From Mr Peter Sienesi.

Sir, Michael Prowse calls for more leadership from the Confederation of British Industry on the issue of controlling annual wage increases (December 4).

It would help matters if the Government, as the nation's largest employer, gave a firm lead and also kept under control those wages for which it is responsible.

Peter Sienesi,
Unit 1, Britannia Way,
Coronation Road, NW10

Each-way bet

From Mr William Drake.

Sir, The conflict of interest in bids to which Mr Van Hoorn refers (Letters, November 28) can largely be avoided by the use of stub equity: in addition to the cash consideration, vendors receive a highly geared equity participation in the new venture. If the market value of the new company rises substantially, vendors will see a spectacular gain in the value of the stub equity. If the new venture is unsuccessful, the stub equity will not be worth much, but the vendors will be comforted by the knowledge that the buy-out was not done too cheaply.

This each-way bet was used in transactions in the buy-out of Magnet and Gateway, and can easily be laid on sales of subsidiaries. Had this been done in the case of UK Paper, Bowater shareholders would feel less short changed.

William Drake,
Director,
Granville & Co.
77 Mansell St., E1

Bolt the door

From Mr M.W. Ahearn.

Sir, The FT has fallen for the ill-informed ramblings of the anti-hacking lobby.

Your claim (leader, December 4) that voice recognition can offer a 99-per-cent security success rate is not only ambitious, but disingenuous in that it implies that password control is less effective.

Intruders succeed because of bad business practice, not poor security options. However many locks are on it, if a front door is left open, someone will enter to steal the video.

M.W. Ahearn,
Rowbaird Computers Ltd,
202 Demesne Road,
Wallington,
Surrey

Pay tailored to productivity

From the Director-General of the Confederation of British Industry.

Sir, Michael Prowse (article 4 December) suggests that British employers are slavishly following a going rate for wage increases of some 9 per cent. He also suggests that we at the Confederation of British Industry should be leading them to a united stand at a lower figure such as 6 per cent, rather than peddling the line that pay increases are fine so long as productivity also rises.

This has the dreadfully familiar ring of the fraudulent Corporate State mentality. For *the* best part of 30 years, successive Governments sought by fair means and foul to cajole employers towards a set figure for pay rises year by year regardless of whether they had been earned or not. The result was a low-pay, low-productivity economy slipping gradually but continually down the league of international competition.

It is only since the trading sector struggled free of the going rate mentality that we have at last started to regain international competitiveness. Employers are constantly balancing the need to pay no more – and no less – than is required to attract and keep people with the necessary skills and commitment against the imperative that pay growth must be fully justified by improvements in performance. Increasingly, they are achieving this by individually tailored packages rather than some collective negotiating norm.

CBI's pay databank now shows employers settling at a wide range of figures, from less than 2¼ per cent to over 10 per cent, reflecting the differing requirements of differing circumstances.

Performance improvements to help finance pay rises are being achieved. Since 1980, our manufacturing productivity has risen by some 60 per cent over-all, a faster rate than the average of our main international competitors – with a wide range of performances as between one employer and another.

CBI data indicate that over the first half of this decade almost two-thirds of all firms linked pay to productivity in a positive way and the process has continued as strongly since. Employment has risen to record levels and, according to a survey of consumers this year, there has been a perceived improvement in the quality of what we produce. Export revenues (excluding oil) have been particularly buoyant.

This shows what can be achieved when employers are free to build pay structures that suit their circumstances, and to pursue wage settlements that are financed by real improvements in performance. The link between pay and performance is still not strong enough to ensure that in all cases unit labour costs fall year by year, as they must in a competitive world. But it is a great deal closer than was achieved when pay norms dominated economic thinking.

To say this is not to underestimate the difficulties of maintaining progress towards an internationally competitive manufacturing base. With poorer prospects in the domestic market, manufacturers are having to redouble their export efforts in the search for the growth necessary to cover investment costs under a high interest regime. That is why the CBI has been emphasising that pay rises must always be linked to productivity improvement: only in that way can we move to a position where unit labour costs can invariably fall year by year. That link must be made right across the economy, in the manufacturing and service sectors. We are making this the theme of our advice to members: there can be only one going rate; it is for unit labour costs, and it must be negative.

It is not going to be easy in the present circumstances to maintain the progress. But our members' task would be made infinitely more difficult if the Government, or the CBI as Mr Prowse suggests, were to specify some figure for pay rises that would be wholly inappropriate to the trading circumstances of many enterprises. This would immediately be viewed by every trade union as an entitlement requiring no matching effort to finance it.

John Banham,
Centre Point,
103 New Oxford Street, WC1

German lesson

From Mr Ronald Farquhar.

Sir, There is something wrong with David Goodhart's history – not to speak of his geography – if he believes that the Sudetenland was part of Germany for many decades before the Second World War (article, November 15).

The Sudetenland never belonged to the German Reich, but was part of Austria until 1919, when the Treaty of St Germain transferred the region to the new state of Czechoslovakia. Nazi Germany annexed the territory under the Munich Agreement of September 1938, and Czechoslovakia recovered it in 1945 at the end of the war.

Ronald Farquhar,
26 chemin François-Lehmann,
1218 Grand-Saconnex,
Geneva,
Switzerland,

Ars gratia artis

From Mr F. Spooner.

Sir, One day an article comparing a recent squalid film to a work of Rembrandt (October 12). Another day your television critic compares a work by a "leading television dramatist" to a Van Gogh. They are all "great art," it seems. Meanwhile, Michael Prowse (November 29) seeks to reduce still further our "élitist" education standards by destroying A-levels. The FT itself sets high standards; what a pity that here it should align itself with some of the most reductive tendencies in English life. Thank God, at least, for your visual arts critic, William Packer.

F. Spooner,
Meadowside,
Corfe Castle, Dorset

Floating tactics

From L.T. Smith.

Sir, Clearly, the UK Chancellor takes advice from the "Grand Old Duke of York," who has been marching 10,000 men up and down the hill for centuries. When currency speculators decide to attack sterling, they should be allowed to do their worst. Then, when they are out of breath and most at risk, the reserves should be brought up and their pensions put in peril.

Enoch Powell, who invented the floating rate, should be persuaded to explain the Government's tactics with the clarity only he can command.

L.T. Smith,
23 Markham House,
Kingswood House, SE21

FINANCIAL TIMES
Monday December 11 1989

Janet Bush on Wall Street

SIA chips back into the fairway

FOR the last two years, the annual meeting in Florida of the Securities Industry Association, an extravaganza of cocktail parties and golf, seemed rather to miss the main event.

In 1987, the merger between Shearson Lehman and E.F. Hutton was announced in New York. In 1988, evidence of a lack of serious discussion material came in the choice of Tom Wolfe, author of The Bonfire of the Vanities and satiric scourge of Wall Street, as the keynote speaker.

This year was different. Suddenly, the SIA made its relevance felt again, for a simple reason – it finally dropped its long resistance to repeal of the 1933 Glass Steagall Act, which separates commercial and investment banking.

Its previous stance was understandable because the SIA has the unenviable job of representing an enormously diverse industry. Nevertheless, its battle against dismantling Glass Steagall had made it look defensive and out-of-step with a fast changing financial world. Not only that but its fight through the courts against expanded bank powers authorised by the US Federal Reserve was largely fruitless.

Three big Wall Street houses – Goldman Sachs, Morgan Stanley and CS First Boston – took the initiative, drafting a policy document for the SIA which was passed at the conference.

At the least, dropping SIA's opposition to expanded banking powers sends a message to Congress that a significant obstacle has been removed.

Progress from here may be slow, not least because the SIA's new proposal, while conceding that banks should be allowed to engage in securities activities, also exacts a price.

Bank holding companies would be allowed to form "investment banking financing companies" to own and finance securities subsidiaries but these would not be allowed to enjoy the protection of federal deposit insurance.

In exchange, securities houses want to be allowed to own commercial bank subsidiaries and, at times of "generalised liquidity crisis," to borrow directly from the Federal Reserve discount window. They argue that if banks are competing with them directly, securities houses would not be able to rely on them to provide funds during a credit crunch.

The other big plank of the SIA proposal is that there should be functional regulation. The Securities & Exchange Commission would regulate the securities subsidiaries of banks.

There are three main areas of potential contention. First, banks will likely argue that it will be too expensive and inefficient to run their securities activities without cheap, federally insured funds.

Second, the question of functional regulation raises the spectre of the same old regulatory turf battles which stymied efforts at reform during the last Congress, particularly in the House of Representatives where regulation of banking and the securities industry is split between committees.

Third, the SIA proposal still sees the question of structural reform as a two-way street, including only banks and securities houses in the debate. It leaves out the thorny question of insurance companies and does not take into account hybrid financial services companies and link-ups.

The Financial Services Council, a coalition of financial institutions, believes that structural reform must be much more comprehensive if the US is going to compete globally.

Mr Sam Baptista, FSC president, said: "What we need is not a two-way street but a traffic circle which any type of institution can enter at any point and exit in any direction." He means entities like Barclays Bank, which carries out its securities business through Barclays de Zoete Wedd.

This proposed legislation, thought too radical two years ago, is now receiving some attention in Congress. Republican Frank Annunzio, chairman of the House Financial Institutions, is to hold hearings on the bill in the spring.

Mr Baptista said that Congress is getting increasingly worried that the current structure of the financial business makes the US uncompetitive with the rest of the world but remains frightened about the political hoo-hah involved with radical change.

Still, if the Berlin Wall can be torn down over a weekend, surely Congress can start dismantling the restricting barriers between different providers of financial services.

EUROPEAN SUMMIT

Thatcher denies isolationist role

By Michael Cassell in London, and David Buchan, Ian Davidson and Robert Mauthner in Strasbourg

MRS Margaret Thatcher, the British Prime Minister, will tomorrow seek to reassure Conservative MPs that she is not taking an isolationist role in the European Community and that she intends to ensure Britain participates fully in the next stages of its development.

The European summit, which ended on Saturday, marked an important step towards the establishment of economic and monetary union (Emu), with a decision to convene a treaty-amending conference in December next year.

The decision was taken despite objections by Mrs Thatcher, who nevertheless made clear that Britain would play a full part in the negotiations. She was also overruled by the other 11 member states when they adopted a Community social charter protecting workers' rights.

There were some indications last night that, despite Mrs Thatcher's rejection of the charter and her resistance to the next, planned steps towards Emu, her performance at Strasbourg, with her marked change of tone and more conciliatory approach, will be welcome within sections of the party.

However, with the latest opinion polls suggesting that the Government's approach towards Europe has become increasingly unpopular, some Conservative MPs remain dismayed at Mrs Thatcher's refusal to be seen as a more enthusiastic proponent of moves towards greater co-operation and integration.

Mr Douglas Hurd, the Foreign Secretary, claimed at Strasbourg that there was near-unanimity in the Conservative Party over central issues such as the social charter and monetary union. But he recognised the need for the leadership to mount a more persuasive campaign to state its case.

Mrs Thatcher intends to drive home her support for closer links with other European Community partners, but she will insist that Britain will not participate in any premature EC initiatives which might undermine Westminster's own powers and which could harm Britain's own interests.

The Prime Minister was, however, already under attack last night from the opposition parties. Mr Gerald Kaufman, the shadow foreign secretary, said Mrs Thatcher had ensured that British interests would not be properly considered in moves towards economic and monetary union.

Last night there was confidence among British officials that, although Britain had been in a minority of one in Strasbourg on the issues of the social charter and Emu, there would be ample opportunity to influence events during the deliberative processes.

At the summit, the Emu initiative was matched by a declaration on central and eastern Europe which laid down important pre-conditions for any move towards the reunification of the two Germanys.

France and other Community members have argued that the EC needs to bind West Germany more closely into Western Europe in the face of the emerging liberalisation in Eastern Europe, and to strengthen its internal structures so as to be able to help reforming states in the East.

The formula on German reunification, agreed after some tense exchanges between heads of government, recognises the right of the German people to "regain its unity through free self-determination." But it stressed that this could only take place "peacefully and democratically", and in a manner which fully respected the four-power agreements on Berlin as well as the 1975 Helsinki Final Act that sanctioned post-War European borders.

The summit agreed in principle that the Community should set up a European Bank for Reconstruction and Development aimed at helping economic recovery and market-oriented reform in eastern Europe.

The Community also endorsed the idea of giving the Soviet Union observer status in the Gatt international trade body, a proposal already backed by President George Bush.

Strasbourg Summit, Page 3; Editorial Comment, Page 14

President Mitterrand, the summit host, said at the close of the meeting on Saturday: "Henceforth there is no longer a Europe in two parts acting in the shadows or at the initiative of the two superpowers."

Commitment to stability underlined

THE FOLLOWING are key extracts from the official version of the final statements issued by the 12 European Community leaders at the end of their two-day summit:

● Eastern Europe: "These are historic events and no doubt the most important since World War Two . . .

"The European Council is convinced in the present circumstances that all must, more than ever, demonstrate their sense of responsibility. The changes and transitions which are necessary must not take place to the detriment of the stability of Europe but rather must contribute to strengthening it.

"Far from wanting to derive unilateral advantages from the present situation, the Community and its member states mean to give their support to the countries which have embarked upon the road to democratic change. They deplore all the more so that in certain countries this process is still hindered.

"The Community and its member states are fully conscious of the common responsibility which devolves on them in this decisive phase in the history of Europe.

"They are prepared to develop with the Soviet Union and the other countries of central and eastern Europe, and with Yugoslavia, in so far as they are committed to this path, closer and more substantive relations based upon an intensification of political dialogue and increased co-operation in all areas . . ."

● German Reunification: "We seek the strengthening of the state of peace in Europe in which the German people will regain its unity through free self-determination. This process should take place peacefully and democratically, in full respect of the relevant agreements and treaties and of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West co-operation. It has also to be placed in the perspective of European integration . . ."

● Creating a European Bank for Reconstruction and Development: "Its aim will be to promote, in consultation with the IMF and the World Bank, productive and competitive investment in the states of central and eastern Europe, to reduce, where appropriate, any risks related to the financing of their economies, to assist the transition towards a more market-orientated economy and to speed up the necessary structural adjustments.

"The states of central and eastern Europe concerned will be able to participate in the capital and management of this bank in which the (EC) member states, the Community and the European Investment Bank will have a majority holding. Other countries, and in particular the member countries of the OECD, will be invited to participate. The European Council hopes that the European Bank for Reconstruction and Development will be set up as soon as possible. The European Council requests that the necessary steps be taken to ensure that negotiations are opened in January 1990."

● Economic and Monetary Union (Emu): "Following a discussion on the calling of an intergovernmental conference charged with preparing an amendment of the treaty with a view to the final stages of Emu, the President of the European Council noted that the necessary majority existed for convening such a conference under article 236 of the treaty.

"That conference will meet, under the auspices of the Italian authorities, before the end of 1990. It will draw up its own agenda and set the timetable for its proceedings.

"The European Council emphasised, in this context, the need to ensure the proper observance of democratic control in each of the member states. With a view to the new term of the European Parliament, which will begin in 1994, it calls for Economic and Monetary Union, to comply fully with this democratic requirement."

Anti-apartheid groups divided over talks

By Patti Waldmeir in Johannesburg

DIFFERENCES between rival anti-apartheid groups prevented the largest black political conference ever held in South Africa from achieving its aim of uniting opposition forces against the Pretoria Government at the weekend.

It was the most significant black political gathering – with 4,500 delegates – in South Africa since the so-called "Congress of the People" in 1955.

Coming on the eve of a United Nations special session on South Africa which begins tomorrow – and at which anti-apartheid groups had hoped to present a united front – this evidence of divisions was particularly damaging.

Unity was further jeopardised by the fact that some leading opposition groups stayed away from the conference, including Inkatha, the Zulu political movement headed by Chief Mangosuthu Buthelezi, which claims 1.5m members.

The two main groups at the conference – the Mass Democratic Movement (MDM), a multi-racial alliance which is probably the largest anti-apartheid group in the country and the Black Consciousness Movement (BCM), a smaller and more politically radical organisation – managed to avert a public split.

Their divisions were barely concealed, however, especially over the issue of whether to negotiate with the National Party Government to end the country's political crisis. The main aim of the conference was to agree a united position on negotiations, at a time when Pretoria is pressing black groups to begin talks.

Toward that end, the conference voted to adopt the so-called "Harare declaration" drawn up last August by the African National Congress (ANC), the exiled organisation closely allied to the MDM. The declaration sets out pre-conditions for talks and outlines a new constitutional future.

Black Consciousness delegates failed to endorse the declaration, however, saying they accepted it only as a "recommendation" for further talks.

Conference organisers stress that the BCM did not actively oppose the declaration, choosing instead not to vote on it at all. But their failure to support it will weaken the case of the ANC, which is pressing the UN to adopt the document as a blueprint for a solution.

Leaders of both organisations yesterday labelled the conference a triumph. "Business was concluded in a spirit of unity unprecedented in any gathering with such a disparate array of organisations," said Mr Murphy Morobe, an MDM representative.

In one of its more significant achievements, the conference agreed to launch a campaign for a directly-elected constituent assembly to determine the country's future.

Gorbachev bolsters post

Continued from Page 1

Yet the Soviet leader somehow managed to win the appointment of a key political ally, Mr Ivan Frolov, the new editor of Pravda newspaper, as a full secretary of the central committee.

But he had to accept the election of Mr Vladimir Ivashko, the new and fairly conservative party leader in Ukraine, as a full member of the Politburo – a position which normally goes with the job.

Mr Boris Yeltsin, the Communist Party rebel, said yesterday that it was the most conservative of all the seven plenary meetings held during the year. He strongly criticised Mr Gorbachev for himself giving in too much to his attackers.

Mr Yeltsin was speaking at a rival meeting, held by the dissident Inter-regional Group of some 400 of the most radical deputies in the Congress.

Berlin powers will meet

Continued from Page 1

gloomy picture of declining productivity, increasing prices, and supply problems, and warned of a slide into economic chaos. He said net debt with Western countries was $20.6bn, much higher than had previously been admitted, and that the budget deficit in the current year had risen from DM15bn to DM17bn.

To tackle some of these problems he announced a government commission on economic reform, and proposed that a new management training institute and a fully independent central bank be established in the near future. A joint West-East German economic commission is likely to be agreed when Mr Helmut Kohl visits East Germany next week.

Mrs Christa Luft, the new economics minister, went even further than Mr Modrow, and said widespread privatisation was possible.

WORLDWIDE WEATHER

	Y'day midday	°C	°F		Y'day midday	°C	°F		Y'day midday	°C	°F		Y'day midday	°C	°F
Ajaccio	S	17	63	Dallas †	S	5	41	Madeira	F	18	64	Prague	S	-3	27
Algiers	F	19	66	Dublin	C	7	45	Madrid	F	15	59	Reykjavik	S	2	36
Amsterdam	C	3	37	Dubrovnik	S	6	43	Majorca	C	17	63	Rhodes	F	19	66
Athens	C	11	52	Edinburgh	C	4	39	Malaga	S	19	66	Rio de Janeiro	–	–	–
Bahrain	S	19	66	Faro	C	15	59	Malta	F	18	64	Rome	S	12	54
Barcelona	C	12	54	Florence	S	8	46	Manchester	Fg	3	37	Salzburg	S	0	32
Belfast	C	6	43	Frankfurt	S	1	34	Melbourne	C	28	82	S'Francisco †	S	9	48
Belgrade	S	-1	30	Geneva	C	1	34	Mexico City	–	–	–	Santiago	–	–	–
Berlin	S	-2	28	Gibraltar	F	18	64	Miami †	C	14	57	Seoul	R	5	41
Biarritz	C	12	54	Glasgow	Fg	2	36	Milan	Fg	0	32	Singapore	F	30	86
Birmingham	C	4	39	Guernsey	S	6	43	Montreal †	F	-15	5	Stockholm	Sn	-3	27
Blackpool	C	5	41	Helsinki	C	-15	5	Moscow	Sn	-19	-2	Strasbourg	S	1	34
Bombay	S	30	86	Hong Kong	S	20	68	Munich	S	0	32	Sydney	S	23	73
Bordeaux	F	5	41	Innsbruck	S	-3	27	Nairobi	–	–	–	Tangier	F	17	63
Boulogne	Fg	0	32	Inverness	C	5	41	Naples	S	9	48	Tel Aviv	S	21	70
Bristol	C	4	39	Isle of Man	C	7	45	Nassau	–	–	–	Tenerife	F	21	70
Brussels	C	0	32	Istanbul	C	2	36	Newcastle	C	5	41	Tokyo	S	11	52
Buenos Aires	–	–	–	Jersey	S	4	39	New Delhi	S	21	70	Toronto †	C	-2	28
Budapest	S	0	32	Johannesburg	F	22	72	New York †	C	-5	23	Tunis	–	–	–
Cairo	S	22	72	Las Palmas	F	24	75	Nice	S	14	57	Valencia	F	15	59
Cape Town	S	24	75	Leeds	F	6	43	Nicosia	F	20	68	Venice	S	5	41
Cardiff	C	6	43	Lisbon	F	16	61	Oporto	C	15	59	Vienna	S	-2	28
Chicago †	C	0	32	Locarno	F	2	36	Oslo	C	-3	27	Warsaw	C	-7	19
Cologne	S	3	37	London	C	5	41	Paris	S	2	36	Washington †	S	-7	19
Copenhagen	C	1	34	Los Angeles †	C	13	55	Peking	S	9	48	Wellington	S	16	61
Corfu	S	16	61	Luxembourg	S	2	36	Perth	F	24	75	Zurich	C	0	32

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder. † Noon GMT temperatures

UK petrol industry fears

By Steven Butler in London

OIL company control over UK petrol stations could be seriously weakened under UK Monopolies and Mergers Commission proposals.

Details of a report due to be handed to Mr Nicholas Ridley, Trade and Industry Secretary, on December 20 remain secret, but industry officials believe it will propose two technical changes that could cause a broad structural transformation of the industry.

The first would end licensee arrangements and place operators of service stations owned by the big oil companies under the protection of landlord and tenant legislation giving them more security of tenure and independence.

The second would eliminate oil companies' ability to offer selective petrol price support to individual service stations which face severe competition.

The oil companies warn that these changes could force them to retreat from marketing in some parts of the country and could reduce competition.

However, the Petrol Retailers Association, representing station operators, and the principal antagonist behind the investigation, believes they could lead to a more competitive industry.

Background, Page 7

THE LEX COLUMN

Back to earth after water

At first sight, the undoubted success of the water flotation seems to cast the remainder of the privatisation programme in rather a new light. Only a few months ago, the general public was hostile to the whole notion. As soon as it became apparent that it involved something for nothing, opposition died away. The number of applicants has been the second largest ever for any privatisation, behind British Gas and ahead of British Telecom.

But the only formal candidate left for privatisation is electricity, which is a very different proposition. Structurally the sale of water was easy, with the bits easily detachable one from another. The structural problem of electricity is enormous and of central importance; get that right and the sale takes care of itself.

At the root of the problem is the guiding principle laid down in the Government's White Paper that electricity privatisation should take place on terms which ensure competition. The Government's advisers seem united in opposing that, on the grounds that if the generating companies in particular do not have contractual stability for the foreseeable future it may not be possible to write the prospectus.

On the other hand, the most important bit of the exercise, the creation of two generating companies, is a *fait accompli*. It no longer seems probable that the sale can be halted; it will simply be on the non-competitive terms imposed by the market. Anything can be sold at a price; whether any wider purpose is served is another matter.

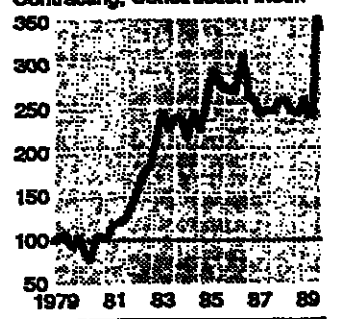
Lovell/Higgs

Now that the brick-dust has settled over Y.J. Lovell's 405p per share run at Higgs and Hill, one thing is manifestly clear. Precise indicators of the going rate for builders of Higgs's quality may not be easy to find; but there is no reason why the stock market should let Higgs go to Lovell at any price less than 10 times current earnings. That was the multiple paid by Singapore Land last March for 15 per cent of another contractor, Rush & Tompkins, with a record of success much briefer than Higgs's; and on that basis Higgs looks to be worth something more than 465p per share.

Not that this takes us very far into the question of whether Higgs should stay independent as a matter of principle. Here, Higgs has some powerful friends. It is

Higgs and Hill

Share price relative to the FT-A Contracting, Construction index



striking that City of London developers such as Mr Stuart Lipton and Hammerson think Higgs is much better off as it is, such is its reputation as a punctual, trouble-free City builder. Nor do Lovell's arguments, that Higgs is not yet prepared for a reshaped construction industry in the 1990s, seem to ring true. At 405p, Lovell's bid seems to put scant financial value on Higgs's 14 per cent stake in Regalian's huge Paddington station development; neither does it give Higgs's management credit for going in on the deal in the first place.

The most pressing concern, though, is that Lovell could be biting off more than it can chew. Its balance sheet is only 44 per cent geared; but as one would expect of a contractor/developer, it is responsible for at least another £40m of debt in more than 20 off-balance sheet associates. This is an issue about which Lovell needs to say more.

Corporate bonds

Creating a UK corporate bond market to fill the gap created by the disappearing gilts sector has been a slow process. After all, the 1980s have seen the cult of the equity; institutions have simply replaced their declining gilt holdings with shares rather than search for a fixed interest substitute. Even those which might have wanted to build up a corporate bond portfolio have found that the liquidity problem bedevilling many equity stocks is doubled in spades in the bond market.

The inverted yield curve has at last acted as a spur to corporate borrowers, and outstanding non-gilt debt is now a record £37bn. But the Hoylake bid for BAT caused one market setback as investors worried about event risk. And recently spreads between corporates and gilts have widened by some 40 to 50 basis points to reflect the greater perceived credit risk arising from a 1990 economic downturn.

Investor interest could be rekindled if 1990 is a bad year for corporate earnings and if a wave of rights issues starts to take the edge off institutional enthusiasm for equities. The prospect of end-year cuts in interest rates would then shift many investors into fixed interest stocks – Phillips & Drew are looking for a return on gilts of 15 to 18 per cent. But to create depth, the market may need to supplement the current good supranational names such as Sweden and the World Bank with the emerging privatised utilities.

Demutualisation

Pundits used to argue that every financial institution in Europe would want to gobble up a UK insurer, for the sake of the superior know-how the British were believed to have. Judging from last Friday's intriguing flotation of the Trygg-Hansa insurance group on the Stockholm bourse, the theory was bunk. Trygg-Hansa's decision to turn its non-life operation from a mutual into a shareholder-owned company by handing out free shares to 930,000 customers is considerably more creative than anything seen recently from the British as 1992 looms closer.

Not that the Trygg-Hansa flotation is necessarily a perfect deal in all respects. One reason for a listing was to get access to capital, to help fund expansion: this may or may not be a good thing, given the excess capacity which the industry is awash with already. Trygg-Hansa wants a direct-selling unit-linked life operation when that becomes legal in Sweden next year; and to help it service Swedish industrial companies abroad, it might buy a smallish non-life insurer in West Germany or Benelux.

The Trygg-Hansa flotation's redeeming feature is the concept of demutualisation by way of a free share issue. Sooner rather than later, many of the UK's mutual life insurers will realise that they need risk capital to survive, to pay for technology or preserve their sales networks. In this respect, Trygg-Hansa offers something of a model. But if the UK is to see an equivalent, it will need the Department of Trade and Industry's somnolent insurance division to offer the kind of encouragement which Trygg-Hansa apparently received from the Swedish government.

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TAYLOR WOODROW
TEAMWORK IN CONSTRUCTION WORLDWIDE

INSIDE

Curtain up on lands of eastern promise

The remarkable political change sweeping across eastern Europe has not only brought out East Germans eager to spend money in West Berlin shops (above), it is also opening up a plethora of possibilities for quick-witted Western entrepreneurs. David Lascelles argues in the Business Column that east Europe has just about everything the entrepreneur could wish for, including highly inefficient markets and a population driven by similar hopes and fears to those in the West. Page 38

Blood-letting in the Euromarket

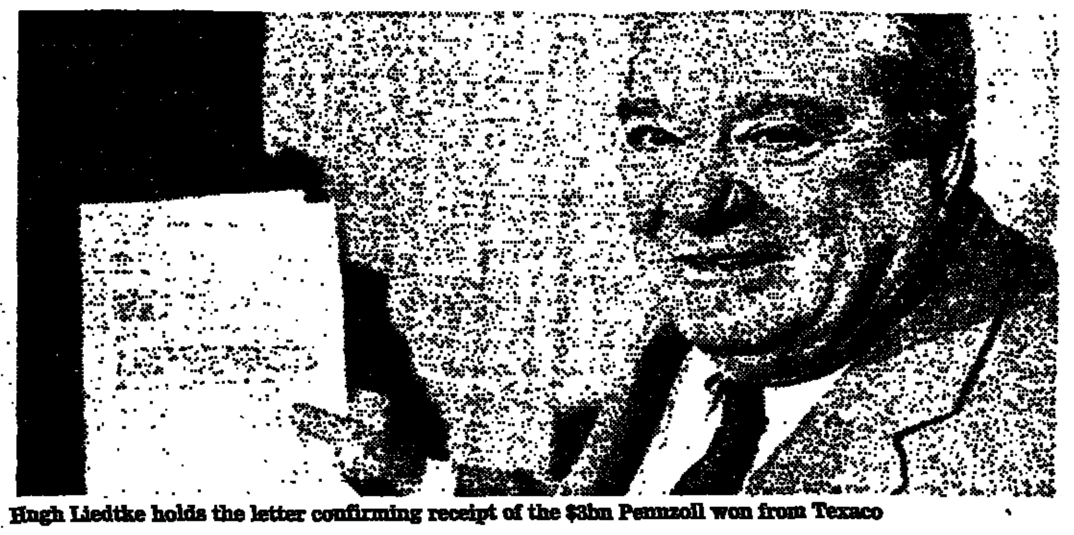
Moves by the Japanese Ministry of Finance appear to have jeopardised the future of the Euromarket by threatening to staunch the flow of Japanese equity warrants that has been the market's lifeblood. The substance of the MoF's intentions seemed to be directed at the trading rather than the issuing of equity warrants, but many houses are worried that the side-effects will be damaging to the Euromarket's core business. Page 18

Merrill's commercial exit

Merrill Lynch plans to withdraw from the Euro-commercial paper market. Even those who have been predicting a market shake-out for more than two years were caught on the hop by last weeks announcement. And, although a departure of Merrill's size will certainly improve the meagre returns among the dealers that remain, it is also likely to bring about a new phase of soul-searching among them, writes Stephen Fidler. Page 18

Market Statistics

Companies in this section



Hugh Liedtke holds the letter confirming receipt of the $3bn Pennzoil won from Texaco

The spectre of Liedtke puts Chevron in a spin

James Buchan explains why the US oil giant has reacted so strongly to the purchase of an 8.8 per cent stake by Pennzoil

It looks a pretty lop-sided match. In one corner is Chevron, America's largest domestic refiner of oil and producer of natural gas and the sixth of the world oil industry's Seven Sisters. From its base in San Francisco, it commands an empire of wells, pipelines, refineries and service stations that generated revenues of $23.3bn in the first nine months of this year.

In the other corner is Pennzoil, a Houston-based company that produces a little oil and gas, operates two refineries and markets a fairly well-known brand of motor oil. Pennzoil reported revenues of $2.1bn (£1.3bn) up to September.

But since last Thursday, when Pennzoil announced it had bought 8.8 per cent of Chevron as a "long-term investment," the San Francisco company has been behaving as if barbarian hordes are camping on the Bay Bridge. After a rushed board meeting that day, Mr Kenneth Derr, Chevron's chairman, sued to force Pennzoil to sell the block of stock, stiffened two anti-takeover by-laws and lined up $5bn in credit from various banks. Coincidentally, this $5bn is roughly what it would cost to buy up Pennzoil lock, stock and barrel.

Opinion on Wall Street is divided. Many people see the moves as a ludicrous over-reaction, especially as Pennzoil keeps saying that it is not interested in trying to takeover Chevron. This show of insecurity in Chevron's boardroom can only fire up the speculators, these people say. Others says that Pennzoil possesses a weapon that Mr Derr is wise not to underestimate.

This weapon is Mr Hugh Liedtke.

Just short of 70 years old, Mr Liedtke is a burly and gruff old man with an undeviating will. He assembled the company now called Pennzoil piece by piece, starting off as wildcatter in West Texas with George Bush in the early 1950s, and then merging his Texan business with some elderly oil production and refining operations in Pennsylvania in the early 1960s. In 1965, Mr Liedtke launched one of America's first hostile takeover bids when he bought half of United Gas over the heads of its management.

After 40 years at it, Mr Liedtke may well be the last of the old-fashioned independent Texas and Oklahoma oilmen: rough, opportunistic, suspicious of the big integrated majors that lord it over the industry. As another Houston oil industry executive put it last week: "He's respected, he's brutal and he's been around for ever."

And Mr Liedtke is still trying to build an oil company. In 1984, he seemed to have reached his heart's desire when he negotiated a deal to buy nearly half of Getty Oil. But these hopes were dashed a few days later when Texaco, a company of a little more than Chevron's size, moved in to buy all of Getty.

For five years, Mr Liedtke pursued Texaco like an avenging angel, scourging the company through the Texas courts until it paid him $3bn in a humiliating out-of-court settlement.

In the process, Mr Liedtke revealed to an astonished America the bumbling and incompetence at the heart of one of the Sisters.

Pennzoil's people say they have spent $2.1bn on the Chevron stock and might spend another $500m, which together uses up all the Texaco settlement after legal fees. They say tax considerations are important: Pennzoil could face up to $800m in taxes on the windfall if it is not spent by the end of next year. The theory is that the Texaco cash is like an insurance payment on a stolen car. Pennzoil would much have preferred the Getty assets only these were "stolen" by Texaco. US tax law allows certain "involuntary" cash windfalls to be tax-free if re-invested quickly in similar assets.

Wall Street accepts this. But nobody thinks that Hugh Liedtke will be a passive investor in Chevron. Indeed, it could be that Pennzoil thinks that Chevron might be in need of the same sort of reorganisation as Texaco. As Mr Liedtke argued in a letter to his stockholders on Thursday, Chevron had failed to produce profits to match its extremely powerful market positions. Pennzoil's "interest in Chevron is to aid and reinforce its management and board of directors in their efforts." The patronising tone of the letter must have sent Mr Derr up the wall.

Like the old Texaco, Chevron has found it hard to bring on new sources of oil to feed its huge refining and marketing network. Meanwhile, costs have risen downstream.

In 1984, Chevron bought the Gulf Oil company of Pittsburgh for $13.2bn. Chevron executives, led by Mr Derr, have spent much of the last five years painstakingly integrating the two companies. Gulf's headquarters in Pittsburgh was sold, its stations are being rebranded and few of its executives are left at Chevron. As one analyst put it on Friday: "Ken Derr knows at first hand what happens when a company gets taken over. That's why he's acting like this."

The converging industrial line of Britain and France

By Guy de Jonquières, International Business Editor

The row over the hidden £38m payment which the British Government made to British Aerospace when privatising Rover would be a juicy enough political affair in any circumstances. What makes it particularly piquant, however, are Mrs Thatcher's indignant assertions that Britain is the only honest dealer in a European market where every other country is guilty of double standards.

As she put it in a television interview six weeks ago : "We're much more open than they are and they really have to start to do things as well as say them...they have to catch us up." Indeed, she explicitly accused other EC countries of unfair subsidies and suggested that sterling would not become a full EMS member while they persisted.

Presumably, even Mrs Thatcher will be prompted by her government's current embarrassment to temper her holier-than-thou tone. But how much truth, if any, is there to the substance of her argument that Britain alone plays by the rules of the market?

In the government's defence – and always provided it is not hushing up other secret deals – its overall record on subsidies looks relatively good. According to the Commission, UK industrial state aids per worker have been running at less than half the Community average.

These figures may unduly flatter Britain, however, since they only cover 1981 to 1986. Since then, state aids throughout Europe have been under steadily increasing pressure from national budgetary constraints and from much stricter surveillance by Brussels.

But, as Mrs Thatcher would doubtless be the first to insist, more than money is at issue. The real question has to do with the panoply of policies deployed by governments in their dealings with industry. What better benchmark against which to test Britain's self-proclaimed virtue than France, traditionally the most enthusiastic European exponent of *dirigisme*, protection and "national champion" policies?

Since its ill-fated experiment with a siege economy in 1981-83, France has drastically cut state spending on industry. More market-oriented policies have supplanted centralised economic planning, and though much of industry remain nationalised, officials no longer meddle routinely in its day-to-day management.

True, the French government still intervenes, as it is currently doing to reorganise the state-owned chemicals sector. But then so does the UK government, for similar purposes. How else to describe Whitehall's role in determining the structure of the telecommunications, gas and electricity supply industries in advance of privatisation?

Furthermore, it is questionable how far Mr Roger Fauroux, the French industry minister, is actually directing the chemicals industry restructuring. Many of the shots are actually being called by the powerful heads of the nationalised industries concerned.

This is a familiar theme of British privatisations. Mrs Thatcher, it will be recalled, originally wanted British Telecom broken up and sold off in pieces. But its then chairman lobbied so skilfully that he induced ministers not only to keep the company whole but even to parrot BT's own propaganda about becoming an international "flagship" of Britain's electronics industry.

Of course, French ministers still often speak the language of *dirigisme* and economic nationalism. But much of it is window-dressing, designed to impress the communist-led CGT union and its deputies in the National Assembly, without whom Mr Michel Rocard's government would be deprived of a majority.

This helps explain Mr Rocard's public intransigence in his recent dispute with Brussels over subsidies to the state-owned Renault group. There is considerable evidence that he was privately delighted to be given a pretext to reduce the government's financial exposure to the company, while Renault's top managers openly admit they would love to be privatised.

Indeed, Thatcherite Britain offers choicer examples than socialist France of of old-style industrial interventionism in action. Take the manner in which Nissan and Toyota were induced to set up car assembly plants in the UK.

Both companies drew up their plans in negotiations with the government The plans were enshrined in formal agreements, which committed the companies to precise targets covering the value of their investments, the units they planned to produce, the number of workers they would employ and the proportion of local content to be achieved – all according to firm timetables.

Had a Labour government attempted to reach such arrangements with privately-owned British companies, it would have been accused by Conservative spokesman of Bennery gone mad. But when the companies were Japanese, the deals were trumpeted by Mrs Thatcher's ministers as a triumph for Britain.

That said, Britain is still indisputably much more open than France to foreign direct investment, above all from Japan. But even here, France's attitudes have begun to change since it failed to block imports of UK-made Nissans. It has realised that, if it has to accept products made by Japanese companies in Europe, there is no point in frightening away the plants which produce them.

Even French officials agree that Britain is much more open to foreign takeover bids than their own country, and that if Jaguar had been a French company, it would not have fallen to Ford with so little resistance. Yet they also concede that if French bidders are to continue acquiring freely in Britain, it would be against their national interest to try to thwart UK takeovers of French targets.

Furthermore, the British government's failure to seek other bidders for Rover is a reminder that its own actions have not always lived up to its professions of openness and non-intervention. Its retention of golden shares in privatised companies is also at odds with its condemnation of other European countries' takeover barriers. That Jaguar's golden share was scrapped as soon as a serious bidder emerged for the company only confused the position further. And did someone whisper Westland?

None of this is to suggest that Britain and France behave exactly the same way. However, there is much evidence that in terms of concrete industrial policy actions, trends in the two countries are converging, not growing further apart.

The most striking differences may lie in the rhetoric. The French government increasingly uses the vocabulary of nationalism and statism as a smoke-screen behind which to implement liberal policies. Mrs Thatcher, by contrast, seems to have become so convinced by her own homilies to market forces that she sometimes fails to see the mote in her own eye.

But then liberalism and economic nationalism have always co-existed awkwardly in her soul. In Tokyo last September, she recalled how her government had battled for Nissan's right to export cars freely from its UK plant to the rest of the EC. "If necessary, I will defend any other Japanese companies investing in Britain in the same way. That is what a free market means," she said.

Such logic has a certain charm. But it is a shaky base from which to assert Britain's moral superiority over its EC economic partners.

Economics Notebook

East's need for inward support

International civil servants and central bankers will be meeting in Frankfurt, Basle and Brussels this week to discuss financial support for eastern Europe.

But, as Mr Lech Walesa pointed out on his recent trip to Britain, inward investment rather than financial assistance is what the former Soviet satellites need to get their economies on their feet.

The problem is that while the late 1980s have seen a surge in international direct investment flows from the major industrialised countries, investors have become more choosy about where they channel their funds.

International investment now largely takes place among the 24 countries of the Organisation for Economic Co-operation and Development.

According to a recent OECD study*, the inflow of investment funds to developing countries averaged $12.7bn in 1986 and 1987.

This was about double the low level of 1985, but the 1987 total of $13.2bn was only 10 per cent of the $131.4bn of outward investment by OECD countries that year.

The figures also gave an inaccurate idea of investment in manufacturing in the developing world. Recorded investment flows were boosted by such factors as US intra-company financial transactions in Bermuda, the Netherlands Antilles and Hong Kong

Apart from the dynamic newly industrialising countries of east Asia, very few developing countries have experienced a significant increase in foreign direct investment in manufacturing in recent years: a fact that augurs ill for eastern Europe.

To attract investment a country generally needs good macroeconomic performance and confidence in its sustainability, sound and effective economic policies; open, market-oriented trade and industrial policies; a dynamic private sector and stable and predictable foreign investment policies.

The crumbling command economies of eastern Europe are nowhere near meeting these criteria.

They need to establish proper pricing systems, to eliminate subsidies and to create the basis for genuine profit and loss accounts in business with the possibility of companies going bankrupt. They must also adopt real interest rates and strive for currency convertibility.

Capital markets, where they exist as in Hungary, are woefully underdeveloped. Property relationships are often muddled with uncertainty surrounding exactly who would pay what to whom in the event of denationalisation of companies. Without a start on reform in these areas, privatisation of eastern Europe's state industries and large-scale foreign investment will remain a pipe dream.

To make matters worse, Poland and Yugoslavia are currently suffering from hyperinflation. Financial assistance may help them through the winter, but what they need in the longer term is a massive injection of financial expertise.

Poland and Hungary have approached the OECD informally for such help, while there have also been contacts between the Paris-based think tank and Soviet officials. It is clear that accountancy skills will be at a premium. Western accountancy firms are already beefing up their involvement to the east of what used to be the Iron Curtain.

Western experts believe that Hungary probably stands the best chance of attracting foreign investment among the east European countries.

Its inflation rate of around 20 per cent is relatively low and largely reflects Government moves to suppress subsidies and broaden the revenue base by raising value added tax. Hungary has a working income tax system, but with the disadvantage of high tax rates. A nation wide system of commercial banks has been set up and the banks charge real interest rates.

Many difficulties remain. Hungary is heavily in debt to the West. It has insufficient hard currency income and a large trade surplus in non-convertible roubles with the Soviet Union. But in the view of the Western experts, Hungary's problems are not insuperable, although a successful adjustment of the economy will require belt tightening under the aegis of an International Monetary Fund economic reform programme.

Eastern European countries have one potentially great advantage over Third World developing countries when it comes to attracting inward investment: they have relatively high educational standards.

The OECD report, cited earlier, suggests that in the developing world, only a few, mainly newly industrialising countries will be able to absorb the new technologies that are currently spreading throughout the industrialised world. The quality of their educational systems could enable the Soviet Union and the east European nations to join this select group.

**International Direct Investment and the New Economic Environment, available from OECD, Publications Service, 2 rue André-Pascal, 75775 Paris Cedex 16. FFrs 100.*

Peter Norman

THIS WEEK

The regular flow of monthly economic data will turn into a flood this week as the British and US governments publish figures that should give a guide to the state of inflation and the real economy in both countries.

Figures for US trade in October, producer price inflation and industrial production (all on Friday) may give pointers to the short-run policy adopted by the US Federal Reserve. An easing of US monetary policy is widely expected.

The consensus of analysts expectations, as polled by MMS International, the financial information company, are for a 0.2 per cent rise in producer prices (excluding food and energy, 0.3 per cent) in November.

US Industrial production last month is expected to show no growth, while the merchandise trade deficit is expected to rise to $9bn from September's level of $7.9bn. Analysts believe the trade account is on an improving trend, and think a strike at Boeing, the US aircraft manufacturer, may have been responsible for the apparent weakening of the trade position.

For UK markets, today's retail sales data (November), Thursday's employment and earnings figures (spanning October and November) and Friday's retail prices index (November), are expected to underline weak consumer demand but persistent inflationary problems.

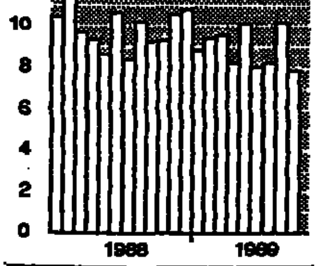
The MMS median forecast for UK retail sales is a 0.2 per cent rise on the month, a modest reversal on October when retail sales volume fell 0.7 per cent.

Whole economy average earnings in October is forecast to be 9.25 per cent higher than a year earlier, up from 9 per cent in the year to September.

The MMS median expectation is for a rise in the retail prices index in November of 0.9 per cent, leaving the annual rate of inflation at 7.8 per cent. A 1.1 per cent rise in the index would put inflation back to 8 per cent.

US Trade Deficit

$bn Custom import basis (SA)



This week also sees a busy round of international meetings.

Top finance ministry officials from the group of seven leading industrial countries meet in Frankfurt today for talks on increasing the resources of the International Monetary Fund and developments in eastern Europe.

The Bundesbank's policy making central council meets on Thursday to decide West Germany's money supply target for next year.

The council will be under pressure to take a restrictive line following recent immigration from eastern Europe which is expected to fuel strong growth and inflationary pressures.

Today: UK producer prices for November, input up 0.3 per cent, output up 0.4 per cent

Tomorrow: Japan's customs cleared trade figures (November) $4.2bn. Japan, machinery orders.

Wednesday: US retail sales, up 0.1 per cent in November.

Thursday: UK manufacturing output, up 0.3 per cent; UK November unemployment, down 20,000. French consumer prices, November. US business inventories and third quarter current account figures.

Friday: US capacity utilisation, November; Japan, wholesale prices, November.

INTERNATIONAL CAPITAL MARKETS

COMMERCIAL PAPER

Merrill's exit leads to soul-searching

MERRILL LYNCH'S announcement last week that it would withdraw from the Eurocommercial paper market came as a surprise even to those who had been predicting for two years that the market was preparing for a shake-out of unprofitable dealers.

This shake-out has happened on the quiet as other houses, less prominent than Merrill, have left the market.

A departure of Merrill's size will certainly improve the meagre returns among the dealers that remain; it is also likely to bring about a new phase of soul-searching among them.

The background to Merrill's move is clearly the stagnation that has overcome the market this year, in spite of a number of positive developments that would in happier times have favoured it.

The most positive development has been the improving performance of the ECP market against its US counterpart. Yields of ECP remain closely linked to interbank rates, which last year were regularly much higher than the US composite commercial paper rate. That meant it was unattractive for most corporate borrowers with access to the US market to issue in Europe.

This year Europe has proved much more competitive to issuers and the reason seems to be that ECP yields are more closely following US CP rates. Why this is so is not completely clear.

It may partly reflect a shift in perceptions of risk in favour of banks – particularly the well-capitalised European and Japanese ones – and against corporate credit. It may also reflect an increased appetite among US investors for Euro-certificates of deposit.

US investors are barred from direct investment in ECP, but can invest in Euro-CDs, similar-looking paper issued by banks. If US investors increasingly view US commercial paper and Euro-CDs as competing products, Euro-CD and US paper rates will tend to move more in line. And since Euro-CDs and ECP are substitutes for international investors, rates on these instruments are likely to move in a similar fashion.

Yet the amount of outstanding ECP seems hardly to have changed since the start of the year, at about $70bn. The reason is not hard to divine: the increasing incidence of default on commercial paper which has understandably heightened investor concern about credit quality.

The credit quality of ECP has always been, on average, lower than US CP: the European market developed from a banking product and there has never been the absolute US requirement that an issuer should obtain a credit rating.

Over the past six months, dealers say quite a few issuers of lesser credit quality have run down their programmes or even stopped issuing. Meanwhile, they say there is still some growth at the higher-quality end of the market.

As investors become more worried about defaults, so must dealers. Although dealers have decided they have no responsibility to make up losses to investors in case of defaults, their reputations ride on the quality of the paper they sell.

The costs to Merrill Lynch of due diligence and credit work on 197 ECP programmes and a further 23 revolving underwriting facilities would have been rising. Dealer returns may have edged up a basis point or two over the past 12 months, but they are still tiny: a 3 basis point dealing spread would still be generous. Slim pickings in a business where the pitfalls are growing.

● Midland Montagu and a small group of banks have underwritten, for an undeclared amount, the financing for Kingfisher's bid for Dixons.

● Signing is expected tomorrow, after many difficult months, of a $400m loan for the Qatar General Petroleum Corporation and one of $200m for the State of Qatar.

● Banca Commerciale Italiana is syndicating a £103.8m supplier credit in favour of Industrie Zanussi for the supply of household products from Zanussi of the UK. Both are Electrolux subsidiaries.

● Chase is syndicating a $50m one-year deal for the Industrial Reconstruction Organisation of Greece.

Stephen Fidler

EQUITY WARRANTS

Japan prepares to staunch Euromarket's lifeblood

MOVES BY the Japanese Ministry of Finance appear to have jeopardised the future of the Euromarket by threatening to staunch the flow of Japanese equity warrants that has been the market's lifeblood.

The substance of the MoF's intentions seemed to be directed at the trading rather than the issuing of equity warrants, but many houses are worried that the side-effects will be damaging to the Euromarket's core business.

Hastily-convened meetings among non-Japanese securities houses involved in trading equity warrants reached the tentative conclusions that the primary market is fundamentally threatened and that the MoF is discriminating against non-Japanese houses.

As one senior banker in London said: "We are still gathering information, but it appears we are fighting the greatest threat to the market since its inception." Mr Christopher Heath, of Baring Securities, agreed. "The aim of the authorities is to pull the warrant market back to Japan and then to develop the market for yen warrants," he said.

There are several versions of what happened in Tokyo at the end of last week. It appears that senior managers from the four leading Japanese securities houses – Nomura, Yamaichi, Daiwa and Nikko – were called in individually to the MoF where they were addressed by members of the Securities Bureau.

The civil servants made clear they were looking for a conclusion to long-standing talks on the regulation of Japanese equity warrants trading.

In particular, a proposal that equity warrants should be listed and traded on screens on the Tokyo Stock Exchange has been on the table for months: now, without adopting a formal deadline, the officials want to conclude the matter. The Securities Bureau apparently made clear that by the end of this year it wants to have in place a timetable for implementation of its proposal. However, significant opposition to the proposal may well delay its introduction. The Tokyo Stock Exchange is understood to have been "positively studying" the technical problems associated with the listing and screen trading of equity warrants, and is thought to have indicated to the MoF that these can be solved.

Given that more than 70 per cent of secondary trading of the warrants is conducted in Tokyo already, it might seem a fair wish for the MoF to increase its regulatory authority. Officials have, for some time, expressed worries about the transparency of the market for small investors. They argue that controlled agency broking would work better than the current over-the-counter market-making system.

It is unclear, however, whether the liquidity needed to attract all sorts of investors to what is a volatile and dangerous instrument would be provided or protected by screen-based exchange trading. The existing market is very liquid, allowing investors confidence in the knowledge that they can buy or sell at ease.

The large securities houses say smaller "free-riders" would be allowed to muscle in on their business. In particular, they think matched orders and fixed commissions would detract from the freedom and ease of the current market.

This is worth elaborating on. Traders argue that they face a constant mathematical challenge when they offer warrant prices to investors. Movements in stock prices can cause big swings in warrant prices, forcing dealers to revise the basis on which they calculate the true value of the warrants. Any reduction in liquidity, such as the loss of traders' ability to go short on an issue implied by matched orders, would severly hamper the market for warrants.

While medium-sized and small Japanese brokers would benefit from improved access to the market, foreign houses, especially recent new entrants to OTC market-making like Kleinwort Benson, Salomon Brothers and Merrill Lynch, would see valuable investments become redundant.

Last week this led to intemperate claims that the MoF was contemplating a nationalistic and anti-competitive act. Doubts were expressed about the depth of understanding shown by MoF officials of the warrants market.

In searching for an explanation as to why the MoF appears to have accelerated its agenda and dramatically raised the stakes, Japanese bankers have come up with an interesting theory.

They say that within the MoF the Securities Bureau has been fighting a battle for jurisdiction with the International Finance Bureau, the arm of the MoF which controls Eurobond issues. By making equity warrants an issue, the Securities Bureau is trying to extend its domestic regulatory powers at the expense of the International Bureau.

While there are features of the warrants market that could be improved, this has become secondary to the Securities Bureau's desire to bring warrants under its jurisdiction, a development which would benefit smaller domestic brokers at the expense of the big four houses.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Realty & Dev.◆◆	1bn	1993	4	2¾	100	Daiwa Europe	2.750
Towa Real Estate Dev.◆◆	150	1993	4	2⅞	100	Nomura Int.	2.875
STC Corp.(g)§◆	30	2004	15	1¾	100	CSFB	1.250
Norinchukin Bank◆	200	1997	7	8⅝	101½	Norinchukin Int.	8.334
Bank of Greece(c)†◆	300	1996	7	30bp	100	CSFB	-
CME Finance(f)◆	575	1999	10	(f)	102	Nomura Int.	-
CME Capital◆	50	1999	10	(f)	102	Nomura Int.	-
Union Bank of Finland◆	21	1993	3	8½	101⅜	LTCB Int.	7.967
Boots Co.◆	175	1997	7	9	101½	CSFB	8.705
Ishikawajima-Harima◆	500	1993	4	(3¼)	100	Yamaichi Int.	*
Dev.Bk.of Turkey◆	100	1995	6	9¾	100	Daiwa Europe	9.750
Sumitomo Corp.◆	100	1992	3	8½	101⅛	Daiwa Europe	8.063
Long Term Cr.Bk.Japan◆	100	2000	10	9	101.85	LTCB Int.	8.715
Flash Ltd Series K†◆	30	1993	4	(q)	100.10	Sanwa Int.	-
FMC Corp.§(r)	75	2005	15	(6¼-6¾)	100	Morgan Stanley Int	*
United Paper Mills†◆	100	1995	5	(s)	100	KOP	-
Ana Hotels & Resorts†◆	50	1999	10	(k)	102	Bankers Trust Int	-
Nippon Oil Co.◆◆(o)	500	1993	4	2¾	100	Nomura Int.	2.750
Nichiei Co◆◆	300	1993	4	2¾	100	Yamaichi Int.(Eur)	2.750
Dainippon Screen Manf◆◆	200	1993	4	2⅞	100	Yamaichi Int.(Eur)	2.875
AUSTRALIAN DOLLARS							
PK-Banken◆	70	1990	1	9	94.80	Paribas Cap.Mkts.	14.979
CANADIAN DOLLARS							
Svenska Handelsbanken◆	75	1992	2	11¾	101.95	Hambros Bank	10.617
D-MARKS							
Aichi Electric Co.◆◆	70	1994	5	1⅞	100	Deutsche Bank	1.875
Sumitomo Construction◆	150	1993	4	(1⅝)	100	WestLB	*
Dynic Corp.◆	100	1993	4	(1⅝)	100	Deutsche Bank	*
Nissho Corp.◆	250	1993	4	1⅝	100	Deutsche Bank	1.625
Tosoh Corp.◆◆	200	1994	5	1⅞	100	Deutsche Bank	1.875
Tobu Stores Co.◆◆	150	1993	4	1⅝	100	Dresdner Bank	1.625
Daiwa Danchi Co.◆◆	300	1993	4	1⅝	100	WestLB	1.625
European Coal&Steel◆(k)	100	1994	5	7¾	101½	Dresdner Bank	7.381
SWISS FRANCS							
Nigata Chuo Bank(a)★★§◆	100	1994	-	⅜	100	Credit Suisse	0.375
Pokka Corp.(b)★★§◆	100	1994	-	¼	100	Credit Suisse	0.250
King Co.★★◆◆	35	1993	-	1	100	Bqe Paribas(Suisse)	1.000
King Co.(h)★★§◆	35	1994	-	¼	100	Bqe Paribas(Suisse)	0.250
Mitani Corp.(i)★★§	50	1994	-	Zero	100	Bank Leu	- -
Somar Corp.(j)★★§	60	1995	-	¼	100	Nomura Bank(Switz)	0.250
Kurabe Industrial Co.★★◆	10	1994	-	6⅞	100	Fuji Bank(Schweiz)	6.875
Takara Standard★★§◆	100	1995	-	⅛	100	Bank Julius Baer	0.125
Nipon Yusen K.K.★★◆◆	300	1996	-	1⅛	100	Credit Suisse	1.125
Daiwa Danchi Co.★★§◆(v)	250	1994	-	Zero	100	UBS	-
Sekisui Jushi★★§◆(w)	80	1994	-	Zero	100	Nomura Bank (Switz)	-
Footwork Corp.§(u)	70	1994	-	Zero	100	BSI	-
LB Rheinland Pfalz★★◆	75	1995	-	6½	100¼	Kredietbank (Suisse)	6.448
ECUs							
Credit Local de France◆	100	1994	5	9¾	102	Paribas Cap.Mkts.	9.233
World Bank◆	100	1995	5	9½	101⅞	Deutsche Bk.Cap.Mkts	9.018
Oest. Kontrollbank◆(d)	50	1994	5	9½	101¼	Merrill Lynch Int.	9.050
Credit Foncier◆(e)	50	1996	6½	9	99.18	UBS Phillips & Drew	9.152
Swedish Export Cr.◆(x)	50	1994	5	9¾	102⅛	Bankers Trust	9.074
AUSTRIAN SCHILLINGS							
Commerzbk Overseas Fin◆	1bn	1994	5	7⅞	99½	Raiffeisen Zentbk.	7.499
LIRE							
Ferrovie d. Statot◆(p)	500bn	1998	8	(p)	100	Banco di Roma	
YEN							
PK-Banken◆	70bn	1992	3	(l)	101⅛	Mitsubishi Fin.Int.	-
Flash Eleven Ltd.◆	1.44bn	1993	3	6½	101⅛	Sanwa Int.	5.986
Forsmarks Kraftgrupp◆	10bn	1992	3	6¼	101.27	IBJ Int.	5.775
Banca di CRT◆	15bn	1995	5	6¾	101¼	Nomura Int.	5.724
Cheltenham & Gloucester◆	15bn	1993	3	6¾	101¼	Daiwa Europe	5.908
Christiania Bank◆	10bn	1993	3	6¼	101⅛	Nomura Int.	5.867
Province of Manitoba◆◆	15bn	1993	4	6.1	101.15	Nikko Secs.	5.770
Oest. Kontrollbank◆◆	25bn	1996	7	7.3	100.80	Nomura Secs.	7.188
KFW Int. Finance◆	25bn	1994	5	6¾	101⅛	IBJ Int.	5.836
Toronto Dom. Bank◆(m)	4bn	1991	2	8½	101⅛	New Japan Secs.Eur.	7.870
STERLING							
Hickson Capital§◆(y)	40	2004	15	7	100	UBS Phillips&Drew	7.123
Temple CLM'gage Nott◆	175	2029	40	(l)	100	S.G.Warburg	-
LUXEMBOURG FRANCS							
Hill Samuel Bank★★◆	300	1993	3	9½	101¼	Banque UCL	9.008
EIB★★◆	300	1997	7	9	101	BGL	8.803
Landesbank★★◆	300	1993	3	9½	101	BIL	9.104

*Not yet priced. ★★Private placement. ◆With equity warrants. §Convertible. ◆Samurai bond. †Floating rate note. ◆Final terms. [illegible]

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Board decision aggravates Mondadori row

By John Wyles in Rome

THE BATTLE for control of the Mondadori publishing group promises a rich volley of legal salvoes this week following a decision by the company's board to seek a L390bn (£248m) capital increase at an extraordinary shareholders' meeting on January 26.

Adopted at a board meeting attended on Saturday only by allies of Mr Carlo De Benedetti, the Italian businessman, the move was instantly condemned as "illegitimate and without effect" by Mr Silvio Berlusconi and the Formenton and Mondadori families.

These have recently coalesced into an anti-De Benedetti majority of Mondadori's ordinary shareholders. Mr De Benedetti's ownership of around 42 per cent of all Mondadori capital means, however, that they are in the minority at extraordinary meetings.

A statement issued by Mr Berlusconi's Fininvest group warned that "the Formenton and Mondadori families, together with the Fininvest group, will as soon as possible examine with their lawyers the initiatives to be taken."

The effect of the Mondadori board's proposal of a four-for-one issue of ordinary shares at a nominal price of L1,000 would be to transform the Berlusconi-Formenton-Mondadori group into owners of less than 30 per cent of ordinary stock.

At the moment, through their control of the Amef financial holding company, they dispose of 50.3 per cent of Mondadori's ordinary shares.

Amef loses because it holds solely ordinary stock which accounts for only half of Mondadori's issued capital, the other half being largely privileged shares, 71 per cent owned by Mr De Benedetti. After the capital increase, the financier would hold about 38 per cent of the ordinary capital and nearly 45 per cent of all shares, including privileged stock. This should give him and his allies firm control.

Silvio Berlusconi: examining initiatives to be taken

However, he risks being in a minority during the period before the increase, which could last several months if key decisions are left to the courts. As an insurance, the Mondadori board is proposing changes in the statutes which would guarantee proportional representation of minority shareholders, raise the number of board members from 13 to 15 and reduce their tenure from three years to one.

It would also give the minority shareholders an effective veto over a number of important board matters by requiring a four-fifths majority for decisions on sales and acquisitions of shareholdings and also for a range of other important matters, including the nomination of editors of publications.

But this proposed change, which Mr De Benedetti's officials say was initially tabled for discussion earlier this year, is also meant to be an olive branch, promising much more of a shared role than has hitherto been allowed Mr Berlusconi and the Mondadoris during their period in a minority.

Prince Carlo Caracciolo, the chairman of the Mondadori board whose mediation attempts failed to avoid the Formenton family's switch of support inside Amef 10 days ago from Mr De Benedetti to Mr Berlusconi, appealed to all shareholders after Saturday's meeting "to reach a balanced agreement which would settle all of the arguments which divide them."

The Mondadori board justified the proposed capital increase from L80bn to L400bn in terms of the L640bn investments made this year and a net consolidated debt level of L370bn. It added that the company had development plans costing "hundreds of billions" which could not be dealt with by further indebtedness.

It also took the decision in spite of a court injunction secured by the Berlusconi camp limiting its deliberations to ordinary business. The board claimed it was obliged to call the special shareholders' meeting under the Italian civil code because it had received a request from more than 20 per cent of the company's capital.

Argentina fund targets privatised companies

By Stephen Fidler

A $500m debt-equity conversion fund aimed at Argentina's forthcoming privatisation programme is being set up by a group of banks together with the International Finance Corporation, the World Bank's equity affiliate.

Apart from the IFC, the fund is being established by Midland Bank, the Bank of Tokyo and Banco Rio de la Plata, Argentina's largest private sector bank. It will aim to invest in privatised companies in deregulated sectors of the Argentine economy which have potential for long-term capital appreciation.

Investment will be made through the conversion of outstanding public debt, which has for some time been trading on the secondary market at well below 20 per cent of face value.

Initially the fund will aim to raise $500m of debt by way of private placement. Some $200m has already been committed by sponsoring banks, while the Bank of Tokyo is expected to commit a further $100m, subject to approval by the Japanese Ministry of Finance.

The Government of President Carlos Menem has pledged to privatise and deregulate large sectors of the economy, including Entel, the telephone system, Aerolineas Argentinas, the national airline, port facilities, the rail network, gas and oil companies, and several industrial companies.

Midland has previously established two similar funds in Chile in conjunction with the IFC.

Chandler to resign from top Kodak post

By James Buchan in New York

MR COLBY Chandler, chief executive of Eastman Kodak, is retiring from the big photographics products company after six of the most difficult years in its history. He is succeeded by Mr Kay Whitmore, currently president of the company.

The management change, which will take place next June, ends a frustrating tenure for Mr Chandler, 64. Since taking over as chief executive in 1983, the soft-spoken engineer has presided over four big restructurings, including a move last month to cut 4,500 jobs. But Kodak's X-ray and copier businesses are declining and profit margins are weakening in the company's famous but mature film and photographic products operation. At last week's close of $42¾, Kodak stock is no higher than in 1982.

Wall Street analysts have complained that Mr Chandler, a 40-year veteran of the Rochester, New York company, has been too respectful as a cost-cutter of the company's venerable traditions and home-town responsibilities. Kodak is also unpopular on Wall Street

Colby Chandler: presided over four big restructurings

for its dramatic $5.1bn purchase of the Sterling Drug pharmaceuticals company, which analysts say was over-priced.

Mr Whitmore, who is 57, joined Kodak as a film engineer in 1957, became a director in 1982 and president in 1983. He is a strong defender of the company's purchase of Sterling Drug.

Canadians split over new financial laws

By Robert Gibbens in Montreal

AFTER three years, the Mulroney Government has failed to gain consensus on new laws governing Canada's financial services industry.

A package being steered by Mr Gilles Loiselle, the new Minister of Finance, was to have been introduced this autumn and then by the year end, but it will now be delayed well into 1990.

The draft legislation, which covers banks and federally incorporated credit unions, trust companies and insurers, deals with the ownership and expansion of lending and investment powers.

The banks, trust companies and insurers are all unable to agree on a package, particularly on the issue of ownership.

The banks want the 10 per cent maximum ownership rule applied to trust companies, while the trust companies want a 65 per cent ownership accepted. Insurers do not want banks to own insurance companies.

● The Royal Bank of Canada, Canadian Imperial Bank of Commerce and Toronto Dominion Bank have asked the US Federal Reserve for expanded corporate underwriting powers.

The three chartered banks want to underwrite and deal in US corporate debt and equity securities. Four US banks were allowed this summer to underwrite and deal in corporate debt on a limited basis through their securities trading arms, apparently softening the 1933 Glass-Steagall Act's separation of commercial and investment banking.

● The Bank of Nova Scotia suffered a loss of C$241.8m (US$208.4m) or C$1.37 a share for the fourth quarter ended October 31, against net profit of C$138.6m or 72 cents a year earlier.

The bank took an additional C$800m in special provisions this year, raising reserves to 65 per cent of gross exposure to Third World problem loans.

It reported fiscal 1989 profit of C$221.8m or C$1.01, down from C$506.6m or C$2.74 in 1988.

Ciba backs up Connaught bid with C$250m

By Robert Gibbens

CIBA-GEIGY of Switzerland and its US partner, Chiron Corporation, are to inject research funds totalling about C$250m (US$215m) into Connaught BioSciences if the Federal Government gives the go-ahead for Ciba-Geigy's takeover offer for the Canadian vaccine maker.

The objective would be to make Connaught a world leader in vaccine research and production furthering the Government's aim to promote Canada's biotechnology industry.

The Federal Government is to publish a review of the Ciba-Geigy bid and a competing offer from Institut Mérieux, an offshoot of France's Rhône-Poulenc. Mérieux has made a research funding commitment of C$150m over five years.

The French company has bid C$37 a share for Connaught and claims it has acceptances sufficient to give it 56 per cent control. But it cannot take up the shares tendered unless the bid is given government approval. Its bid is due to expire on December 14.

Ciba-Geigy's C$30 a share offer expires on December 18.

French radio station goes public on second attempt

By William Dawkins in Paris

NRJ, France's third largest commercial radio station, has completed its flotation on the Paris secondary market after having to relaunch its share issue after it was oversubscribed a record 300 times.

The station, which provides a diet of UK and American pop music to 8m, mainly teenage, listeners, has floated 10 per cent of its equity at FFr380 per share, valuing the group at FFr2bn ($330m).

Founded in 1981, it is the first radio station to come to the market since the flotation of Europe 1, the second largest commercial station after RTL.

Originally NRJ was aiming at an issue price of FFr320, but it scaled it up and asked investors to pay cash in advance to try to reduce demand to a more reasonable level.

Even at the final price of FFr380, applications were received for 17.7m shares, 34.5 times the 512,000 shares on offer, the stock exchange said.

Barings opens Milan office

By Rachel Johnson

BARING BROTHERS, the UK merchant bank, is continuing its European expansion with the opening of a Milan office for its offshoot, Baring Capital Investors (BCI).

BCI, which focuses on buy-outs and late-stage development capital, already has offices in Paris and Munich. Mr Otto Van Wyck, managing director, said an office in Milan was an essential addition to BCI's European presence, as medium-sized Italian companies faced the challenge of market globalisation.

In addition, many privately-owned companies were changing hands as their owners retired. This encouraged management buy-outs, which BCI's new presence was designed to underpin.

The managing directors of the Milan office are Mr Francesco Loredan and Mr Alberto Tazartes.

Strong interest in Bloomingdale's sale

CAMPEAU, the Canadian retailing group, said several parties had expressed interest in acquiring its Bloomingdale's department store chain, AP-DJ reports.

No more than six parties would proceed to the second stage of the bidding process, expected in about eight weeks.

Bond subsidiary to fight Adsteam call for receiver

MR ALAN Bond's Bell Resources said it would fight the request by the Adelaide Steamship group to the West Australian Supreme Court that a receiver be appointed to the company, Reuter reports.

"The company will resist the application vigorously on the grounds both that there is no substance to Adsteam's complaint and that its own conduct does not entitle it to approach the court for any relief," Bell said in a statement to shareholders.

A lawyer appearing on behalf of Adsteam told the court that it considered the appointment of a receiver a matter of urgency to prevent further dissipation of Bell's assets. The hearing was adjourned until today.

Bell Resources, 58 per cent owned by Bond Corp Holdings, said the application brought against the company by Adsteam did not "arise in respect of [the] company's insolvency or any monetary defaults by it."

Adsteam, which has almost 20 per cent of Bell, has criticised the company's payment of a A$1.2bn (US$940m) deposit to Bond Corp as part of Bond's planned sale of its Australian brewing assets.

Adsteam said last week it was nominating Mr John Spalvins, managing director, and four others for election to Bell Resources' board, to take control of it.

Bell Resources said in the statement the company had refused Adsteam's request as being "not in the best interests of all shareholders.

"This issue and others have been discussed over a long period of time and the board is therefore surprised at the way in which Adsteam has now put forward this application."

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Imminent easing brings little cheer

JAMMED tight in a narrow trading range for the past seven weeks, US credit markets are failing to draw much cheer from the prospect of an imminent further easing in the Federal Reserve's monetary conditions.

Although people are still debating the timing of the next reduction in the Fed funds rate, they agree the move is already largely reflected in current prices.

Consequently, many disgruntled traders are liquidating long positions, many of them at a loss. With investors sitting on their money, the biggest hubbub heard is from Christmas parties, not trading rooms.

Optimists argue the central bank will act to trim its Fed funds rate another ¼ point in the next few days to about 8¼ per cent.

They make their case on economic and technical grounds, although neither part of the argument is conclusive.

They suggest this week is the last chance the Fed has for easy and clean manipulation of bank reserves, and hence the Fed funds rate, before they start running into heavy seasonal pressures. The new reserve statement period will bring corporate tax payments and huge demands for Christmas shopping cash.

Not until January will the pressures recede.

A flimsier argument is that the Fed has taken to acting shortly after monthly employment data are released, particularly since November's figures, out last Friday, proved troublesome to interpret.

Some 210,000 jobs were created last month, about 50 per cent more than forecast but insufficient to prevent the unemployment rate clicking up 0.1 of a percentage point to 5.4 per cent.

Markets consoled themselves with the news that October's increase was scaled back drastically from the 233,000 jobs first reported to a paltry 93,000. Lumping both months together could be taken as evidence that the economy is still slowing down and is ripe for another rate reduction.

The trouble is the employment data is once again proving to be a wildly erratic indicator if followed slavishly in the short term. The latest data revision was the biggest since new jobs ballooned from 346,000 to 532,000 in June 1988.

The data included other encouraging pointers, however, particularly in the goods-producing sector. Manufacturing employment fell by 27,000 in November, the eighth month in a row, and the manufacturing work week shortened. Over all sectors, average hourly earnings dipped, indicating that upward pressure on wages may be easing.

But the markets are deeply reluctant to take the next Fed easing for granted after the debacle over Thanksgiving. What virtually everyone then took to be a Fed funds rate cut was only a transient technical problem with reserves.

The embarrassing misinterpretation appears to have temporarily rattled some analysts. Before, they would make bold pronouncements on the basis of subtle signs: now, they want to be hit with a two-by-four.

The problem was evident last Wednesday when the Fed's Tan Book of economic conditions was published. Compiled by the 12 district federal reserve banks before each meeting of the policy-making Federal Open Market Committee, the report is always written in carefully measured tones.

The latest indicated economic activity had weakened in two of the districts but in the other 10 was "stable to moderately expanding." Moreover, the report found "pockets of strength" in the manufacturing sector. With the words failing to paint a lurid picture of an economy on the brink of recession, some analysts gave up hope that the Fed would ease.

The gloom deepened later in the day when an unnamed senior official of the Fed said the central bank's policy makers might want to see more tangible evidence of a weakening economy before cutting the Fed funds rate again.

He said the committee might want to see how the troubled housing and car industries responded to the Fed's earlier actions before loosening conditions further.

It is bad enough that analysts have to rely on shifting and sometimes contradictory evidence to deduce what the Fed is up to. Off-the-cuff comments from unnamed officials make their job even harder.

Such loose talk "can only lead to divisiveness within the Fed and to uncertainty in the markets," said Griggs and Santow, money market economists.

While Treasury securities drifted amid this sea of uncertainty, junk bonds remained the perkiest part of the market. The best names continued to recover from the Campeau-induced autumn rout with, for example, some bonds of RJR Holdings Capital putting on the best part of a point during the week.

Investor demand is spreading down to mid-ranked names and underwriters are managing to bring some issues to the markets, at least the better quality ones.

An example of this is Morgan Stanley's selling last week $850m of bonds by which Jefferson Smurfit, the Irish group, and an investment partnership managed by Morgan Stanley will buy out the public shareholders in Container Corp.

Given the recent turmoil in the junk bond market, the terms were favourable received; $350m of 10-year 13.5 per cent subordinated debentures were offered at par, for example.

Even as bond traders and investors long to get the tail-end of 1989 behind them, securities firms are starting to publish forecasts for next year.

Merrill Lynch believes the US will avoid a recession with economic growth running at about 2 per cent and inflation at 4 to 5 per cent. Interest rates will continue to drift lower early in the year with Fed funds falling to 8 per cent but starting to rise in the second half.

If anyone thought fun might return to the market next year, Mr Edward Taber, director of taxable bonds at T. Rowe Price, advised otherwise. He said the yield on the benchmark 30-year Treasury bond would fluctuate between 7.6 and 8.4 per cent but the market would be "boring and perverse."

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.44	8.44	8.38	9.62	8.00
Three-month Treasury bills	7.82	7.76	7.96	9.03	7.37
Six-month Treasury bills	7.69	7.71	7.97	9.03	7.37
Three-month prime CDs	8.35	8.30	8.45	10.35	8.18
30-day Commercial Paper	8.50	8.45	8.42	9.95	8.05
90-day Commercial Paper	8.20	8.15	8.30	10.05	8.10

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100[illegible]	-⅛	7.81	7.78	7.86
20-year Treasury	112[illegible]	+⅛	7.95	7.96	7.97
30-year Treasury	102⅛	-⅛	7.88	7.87	7.89

Source: Salomon Bros (estimates).

Money supply: In the week ended November 27 M1 rose by $2.1bn to $792.9bn.

NRI TOKYO BOND INDEX

December 1983 = 100	7/12/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	148.30	5.86	148.14	149.08	148.14
Government Bonds	148.25	5.60	148.18	149.01	148.27
Municipal Bonds	149.83	6.05	149.65	150.89	150.06
Govt.-guaranteed Bonds	150.99	6.15	150.80	152.00	151.11
Bank Debentures	142.46	6.05	142.15	143.07	141.87
Corporate Bonds	151.25	5.99	151.08	152.04	150.50
Yen-denom. Foreign Bonds	156.00	6.48	155.80	156.38	156.26
Government 10-year†	5.39		5.36	5.18	5.06

† Estimated par yield

Source: Nomura Research Institute

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	812.1	0.0	25.0	10,814.5
Prev	2,061.1	0.0	0.0	13,580.0
Other	1,056.8	0.0	874.9	3,083.5
Prev	1,634.5	0.0	330.2	2,876.7

Secondary Market

	Straights	Conv	FRN	Other
US$	15,110.1	780.9	4,267.5	7,939.0
Prev	16,428.2	581.2	5,160.5	8,227.0
Other	17,630.5	724.5	3,874.4	38,356.7
Prev	14,723.0	789.4	5,079.2	38,740.3

	Cedel	Euroclear	Total
US$	12,924.2	26,824.9	39,749.1
Prev	13,790.7	32,247.3	46,038.0
Other	25,481.2	40,120.1	65,601.3
Prev	26,202.4	37,970.9	64,173.3

Week to December 7, 1989

Source: AIBD

UK GILTS

Major tiptoes around funding issue

THE FIRST appearance of Mr John Major, the Chancellor, before the Treasury and Civil Service Committee at the House of Commons last week told the gilt-edged market little new about funding policy, but it did offer another glimpse of the new "softly softly" approach at the Treasury.

Mr Major tiptoed carefully around an inquiry into funding policy from Mr Terence Higgins, chairman of the TCSC. The Chancellor even allowed himself a little joke, admitting to the assembled MPs, journalists and analysts that there were probably only five people in the world who understood funding policy.

One of them, Sir Peter Middleton, the permanent secretary to the Treasury, gave what is now clearly the stock Treasury response: the Government remains committed to the principle of full "unfunding" of the budget surplus and any changes in underlying foreign currency reserves.

Nothing new there, but doubts in the market remain over the Government's commitment to the policy, especially in light of the amount of reserves the Bank of England has employed this year to support the ailing pound.

On the same day that Mr Major appeared before the TCSC, the Bank released the latest official reserves figures, showing a fall of $931m in gold and foreign currency reserves in November, after October's record $2.9bn decline.

The Treasury has stuck to the commitment made by the former Chancellor, Mr Nigel Lawson, at Mansion House in October that liquidity lost to the money market when the Bank buys sterling on the foreign exchange markets will be replaced through buying-in of gilts "whenever appropriate." Mr Lawson made clear at the time that this could involve buying-in gilts next year to offset this year's intervention.

Given the extent of the Bank's intervention to support the pound this year, the amount of gilts that would have to be purchased next year could be considerable. In October and November the potential cost to the gilts market of official support for the pound was £2.4bn.

The question troubling the gilts market is, will the Government go ahead next year and purchase gilts from private investors to neutralise the effect of this year's intervention on the liquidity of the money markets? Much depends on whether redemptions of maturing gilts next year are similar to the 1990/91 budget surplus. The market expects approximately £8bn from redemptions next year. In this year's Budget the Treasury forecast a public sector debt repayment of £10bn for 1990/91.

Given that the Treasury has already revised its forecast for this year's PSDR down from £14bn to £12.5bn, and the likelihood that the slowdown in the economy will both boost public spending and reduce Government tax revenues, it is possible that the budget surplus next year could be close to the £8bn due in redemption.

If this were the case, the Government would have little room to buy-in gilts to reverse the overfund of this year's intervention without loosening monetary conditions.

There is always, of course, the possibility that sterling could recover some of its lost ground next year. If it were to overdo its rally, the Bank could return to the currency markets to sell the pound in order to restrain its unwanted rise, effectively neutralising the impact of this year's intervention and eliminating the need for further gilt buy-ins.

However, if the pound were to remain weak next year, as most analysts expect, then the authorities might be reluctant to sanction gilt buy-ins. Mr Avinash Persaud, at UBS Phillips & Drew, claims the Treasury likes to time its gilt buy-ins to coincide with periods of sterling strength, because the purchase of gilts when the pound is weak can undermine attempts to bolster the currency.

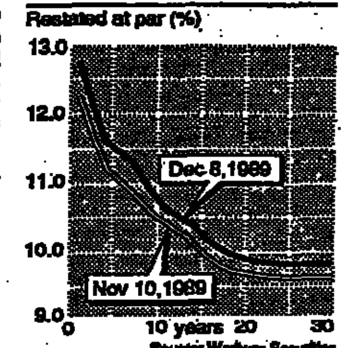
Although doubts exist over the Government's readiness to buy-in gilts next year to counteract this year's intervention, the Treasury has left itself plenty of room to manoeuvre and the market largely in the dark. It stressed at the time of Mr Lawson's Mansion House speech that in sterilising currency market intervention, flexibility was a key element in policy. With the authorities able to make up the rules as they go along, the gilts market will have to put up with the current uncertainty for a good while longer.

This week's raft of indicators is expected to underline the UK's persistent problem with inflation. Mr Major's decision to let the pound fall – hardly good for inflation in the medium term – means that he has opted for a policy of "muddling through" next year.

Patrick Harverson

UK gilts yields

Restated at par (%)



Source: Warburg Securities

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS | Issued | Bid | Offer | Chg on day | week | Yield — [illegible]

OTHER STRAIGHTS — [illegible]

FLOATING RATE NOTES — [illegible]

CONVERTIBLE BONDS — [illegible]

EQUITY WARRANTS — [illegible]

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AECON 9 92	24/09/92	10	0	8.56
CHRYSLER FIN 10½ 94	02/03/94	35	0	9.31
CREDIT FONCIER 10⅞ 98	07/03/93	170	0	9.80
DENMARK 12¼ 92	31/01/90	55	0	9.73
GMAC 8¾ 95 B	11/02/91	17	0	8.52
HEINZ H.J. 7½ 96	01/10/90	2½	0	7.44
INV IN IND 8 9¼ 94	07/04/90	170	0	8.61
LASMO 9½ 96	12/07/92	20	0	9.06
NORDIC INV BANK 10 96	27/03/96	50	0	8.91
S.A.S. 9¼ 03	03/06/91	48	0	8.62

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on DECEMBER 09

Norfolk chief blasts coup attempt

By Jane Fuller

MR PETER EYLES, managing director of Norfolk Capital, the hotels group which has been subject to bid speculation, reacted angrily yesterday to an attempt to oust him from the board.

The attempt at a management coup is being mounted by a triumvirate headed by Mr Peter Tyrie, whose Edinburgh based Balmoral International has a total holding in Norfolk of more than 13 per cent.

Mr Eyles's said: "Mr Tyrie's attempt at personal aggrandisement can only be regarded as totally ludicrous."

The move, which could split Norfolk's board, began last week when Balmoral bought a 12.6 per cent stake in the group from Mount Charlotte Investments for £17m, or about 33p a share.

The proposal being put at today's board meeting is that Balmoral should take over the management of Norfolk Capital and that Mr Eyles should go. According to a Norfolk spokesman, the management contract would "net Balmoral £7m within two years."

The Tyrie camp claims that through discussions with directors and institutions, the holders of 30 per cent of Norfolk's equity are in favour of the Balmoral proposals.

A company spokesman, however, said: "The executive directors of the company will continue to support Mr Eyles and the majority of the board will continue to support him."

One of the key figures on the Norfolk board is Lady Joseph, widow of Sir Maxwell Joseph, the founder of Grand Metropolitan. Lady Joseph, a non-executive director and shareholder, used to be Mr Eyles's mother-in-law.

She and another non-executive director, Mr Tony Good, are among those believed to have been lobbied by Balmoral.

Mr Tyrie is no stranger to boardroom splits. In 1985, when a director of Arthur Bell, the whisky distiller which was trying to fight off a bid from Guinness, he broke ranks to recommend the offer.

He was then managing director of the Gleneagles hotels. A year later he left for Hong Kong to manage the Mandarin hotels chain and it was there that he joined forces with his present partners in Balmoral, Mr Colin Wearmouth and Mr Michael Williams.

Returning to Scotland earlier this year, the trio set up Balmoral with the aim of raising £100m to buy about two dozen luxury hotels in various countries.

It is understood that they had raised about half this amount, including backing from the Bank of Scotland, when the Norfolk "opportunity" came up.

Mount Charlotte, which had itself been regarded as a potential predator, put the stake up for sale after agreeing to buy Thistle Hotels from Scottish and Newcastle, the brewing company, for £645m.

Balmoral's theory on Norfolk is thought to be that it would concentrate on the hotels, which include the Royal Court and the Norfolk in London, the Caledonian in Edinburgh and the Royal Crescent in Bath.

This has given rise to speculation that it would review such activities as the Norfolk Capital Inns, leisure developments and the St James's Clubs in London, Paris and Los Angeles, with a view to some disposals.

Anglo-Park trading starts this week

By Paul Cheeseright, Property Correspondent

TRADING in the shares of Anglo-Park Group, the Winchester property company, will start later this week.

Anglo-Park, which specialises in small commercial property developments for sale, is not raising capital.

Its shares are simply being introduced to the official list by Société Générale Strauss Turnbull.

Shareholders had been promised that the company would go ahead with a listing but plans for a placing were abandoned because of the state of the market.

There are 9.268m shares of 35p, issued and fully paid.

Despite a rush of new issues in mid-1988, property companies have generally avoided coming to the stock market since the equity crash of October 1987.

Other forms of financing have been readily available.

Apart from spurts of activity, often set off by takeover news or speculation, property shares have been sluggish and the sector has underperformed the rest of the market.

Anglo-Park is therefore moving against the trend on the grounds that quotation will heighten awareness of the company in the property market.

The group is the result of a merger last year between Anglo-City, formed in 1971, and Park, which was established under the auspices of the Business Expansion Scheme in 1984-85.

Net assets per share at the end of Anglo-Park's financial year, last June, were 78.43p adjusted for a surplus on the valuation of development properties, or 56.24p without the adjustment.

Pre-tax profits in the year to last June were £1.78m, providing earnings per share of 22.4p. Gearing was 22 per cent.

Shareholders received dividends of 5p for 1988-89 and Anglo-Park says that future dividends would be recommended "at not less than this level."

BAe set to obtain outstanding payments

By Paul Betts, Aerospace Correspondent

BRITISH AEROSPACE (BAe) said it was "completely on course" in obtaining all outstanding payments on major contracts by the year end.

The group, however, said it could not confirm reports that it had just received a cash payment of more than £1bn from Saudi Arabia for military equipment including Tornado and Hawk aircraft being supplied under the Al Yamamah contract.

But its statement suggested that Saudi Arabia had made the large outstanding payment putting the company on course cash-wise with all its major contracts.

Reports of the Saudi cash payment of around £1.3bn coupled with the British government's decision to join a French-led missile system to equip a new series of frigates helped boost BAe's share price by 31p to 557p on Friday.

The latest Saudi cash payment is not expected to affect UK efforts to back up the Al Yamamah contract with a new £2bn credit facility to avoid the huge arms-for-oil contract to be disrupted by fluctuations in crude oil prices.

Guernsey Press repels Jersey invader

By Jane Fuller

THE CHAMPAGNE corks were popping on the fiercely-independent island of Guernsey as news came through yesterday that Jersey-based Guiton's £17.2m hostile bid for Guernsey Press had failed.

Mr Frank Walker's Guiton Group amassed acceptances amounting to less than 18 per cent of of Guernsey Press equity.

Emotions had run high on Guernsey at the prospect of its only newspaper being taken over. Mr Chris Sackett, managing director, said the decisive rejection vindicated the management's judgment that the bid was ill-conceived.

"I think the issue was decided not on island loyalty but on company loyalty. We fought the bid on commercial grounds."

Frank Walker: would consider other acquisitions

He was confident that the company, which experienced a substantial dip in pre-tax profit last year after several years of growth, had a good independent future. It also has printing, publishing and retailing interests.

Mr Frank Walker, managing director of Guiton, admitted he might have under-estimated the strength of feeling on Guernsey. "Our faith in the commercial logic of a merger remains firm."

The 118-for-100 all-share offer valued each Guernsey Press share at 300.9p, compared with the last matched bargain trade of 230p. There was also a 50 per cent cash alternative.

The offer lapses, leaving Guiton with the 2.4 per cent of the equity that it already owned. Mr Walker said his company would consider other acquisitions to expand the group as a printing, publishing and retailing concern.

Ferranti starts disposals with £17m computer business sale

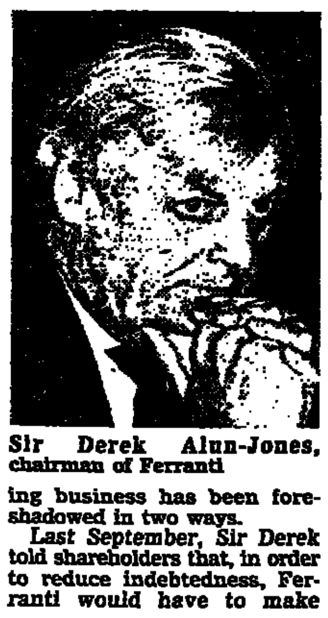
By Paul Cheeseright

FERRANTI International Signal, the financially struggling electronics group, is expected today to sell off its computer servicing business for about £17m.

The proceeds will make a modest contribution to filling the hole in the Ferranti balance sheet left by the alleged fraud perpetrated during the group's takeover in 1987 of International Signal and Control.

Negotiations on the sale of the computer servicing business were being finalised against the background of rising speculation that Sir Derek Alun-Jones shortly will resign as chairman.

The buyer of the business is ServiceTec, a private company, whose managing director, Mr Andy Anderson, was yesterday afternoon putting the final touches to the financing of the purchase.



Sir Derek Alun-Jones, chairman of Ferranti

Sale of the computer servicing business has been foreshadowed in two ways.

Last September, Sir Derek told shareholders that, in order to reduce indebtedness, Ferranti would have to make £100m of disposals. And, in its last annual report, Ferranti said it had been decided that "the civil systems group of Ferranti Computer Systems would reduce substantially the number of market segments addressed by it and terminate certain businesses."

The disposal to ServiceTec is the first Ferranti has made to fill the gap in its finances caused by a £215m gross loss on three International Signal contracts and the subsequent after tax write off of £185m.

The disposals are part of the wider aim at Ferranti of finding another group with which it can merge or, failing that, to stabilise its finances through a £187.1m rights issue. Ferranti's immediate needs for working capital are being provided by 30 banks which have agreed with it a £300m package.

Farranti shares last Friday closed at 41p, or 4½p above its low for the year.

United Precision doubled to £11m

By Jane Fuller

UNITED Precision Industries, the UK's biggest manufacturer of bearings which became private through a management buy-in two years ago, has more than doubled its pre-tax profit for the year to September 30.

Taxable profit of £11.1m compares with last year's £4.9m, which has been revised downwards from the reported £6.5m because of an annualisation of interest charges.

Operating profit advanced 48 per cent to £19.7m on turnover up 24 per cent to £128.9m. Net interest was about £8.5m.

UP was created to mount a £73m buy-in of the RHP bearings business which, at the time, was the largest buy-in in UK corporate history.

Mr Morris said it had been a year of great change for the company. The Chelmsford factory had been closed and production transferred to plants at Newark and Ferrrybridge.

The sale of the Chelmsford site and of land at Newark, where the company has its headquarters, notched up an extraordinary gain of £8.9m.

This plus cash flow had created a cash pile of £24m.

Acquisitions in West Germany and Switzerland, which contributed for seven and three months respectively, had added £12.7m to sales.

This year the company expected 60 per cent of turnover to come from outside the UK, a switch from the 60 per cent UK bias of two years ago, he said.

UP had also completed a £5m investment in information technology, providing facilities that linked order processing with manufacturing lines and the accounting system, as well as computer-aided design and engineering.

The company's largest division with £74m turnover, RHP industrial bearings, benefited from productivity gains and buoyant demand.

RHP aerospace, supplying aircraft makers, had been brought back into profit on sales of £11m.

Bass sells Madrid hotel

BASS, the leading UK brewer, has announced the sale of the Villa Magna, its luxury hotel in Madrid for £50m. The buyer is Shirayama Corporation of Japan and finance has been arranged by Nomura International. This deal follows the sale in September of 11 Spanish hotels for £45m.

Bass said that luxury hotels no longer fitted into its long-term strategy for the development of its hotel portfolio. It added that its expansion plans in the international hotel business were proceeding on course through the agreement to purchase the Holiday Inn business of the US, following the 1988 acquisition of Holiday Inn International.

Also it has acquired 38 hotels in Canada from Scotts Hospitality. Bass claims these two deals make it the biggest hotel operator in the world.

Ross falls into red

Ross Group, the USM-quoted headphone and audio equipment distributor tumbled into losses in the six months to September 30 of £220,000 compared with pre-tax profits of £150,000. There is no interim dividend. Turnover in the half rose to £3.67m (£2.22m).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Abtrust New Dawn B Wrrnts. (Section: Trusts)

CIA Grp. (Paper)

Cons. Planatations (Plantations)

Drayton Asia Tst. (Trusts)

Do. Warrants (Trusts)

Gartmore American Sec. Zero Div. Prf. (Trusts)

Genesis Chile Fd. (Finance, Land)

Mitsui Tst. & Banking (Banks)

Toyo Tst. (Banks)

Trident Petroleum (Oil & Gas)

Wescol Grp. (Buildings)

Rothmans Tobacco

Rothmans Tobacco (Holdings) offer to acquire the issued 'B' ordinary shares of Rothmans International had been accepted by holders of 92.76m (31.27 per cent) on December 6. This was mainly in the form of an irrevocable undertaking from Philip Morris Products in respect of 92.41 shares (31.16 per cent). As a result RTH now owns or has received acceptances in respect of 63.53 per cent of the 'B' and ordinary shares.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Berkeley Group, Carlton Communications, JLI Group, Learmouth & Burchett Management Systems, Marling Industries, Racal Electronics, Racal Telecom, Waterglade, Whitecroft.

Finals- Airtours, Edencorp Leisure, English China Clays, Eurocopy, Hardys & Hansons, Harris (Philip), Holmes & Marchant, Scottish & Newcastle Breweries, Shaftesbury, Venture Plant Group, Vibroplant Group, Wolverhampton & Dudley Breweries.

FUTURE DATES

Interims-

Batley	Dec. 20
Bucknall Austin	Jan. 9
Danae Investment Trust	Dec. 13
ERF	Dec. 13
Harland Simon Group	Dec. 12
Hoskins Brewery	Dec. 12
TR Technology	Dec. 15
West Trust	Dec. 19
Yellowhammer	Dec. 14

Finals-

Acatos & Hutcheson	Dec. 18
Colonnade Dev Capital	Dec. 13
Moorfield Estates	Jan. 31
Staide	Dec. 12

FINANCIAL TIMES STOCK INDICES

	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 1	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.14	83.02	82.98	83.02	82.93	82.98	89.29	82.93	127.4	49.18
Fixed Interest	92.02	92.27	92.17	92.40	92.40	92.33	99.59	92.02	105.4	50.53
Ordinary	1862.0	1850.9	1859.9	1836.8	1823.0	1833.6	2008.6	1447.8	2008.6	49.4
Gold Mines	300.5	297.3	286.7	288.7	294.3	293.2	300.5	154.7	734.7	43.5
FT-Act All Share	1176.92	1169.83	1172.69	1160.92	1150.51	1152.98	1225.80	921.22	1238.57	61.92
FT-SE 100	2363.5	2346.7	2353.7	2327.5	2303.4	2311.1	2426.0	1782.8	2443.4	986.9

CONSTRUCTION CONTRACTS

Refurbishment for Student Games

M.J. GLEESON GROUP has won a £16m management contract for the complete refurbishment of a 13-storey block of 365 flats in Sheffield to accommodate competitors taking part in the World Student Games there in 1991.

Awarded by Northern Counties Housing Association, this is the group's largest management contract to date. Refurbishment of the block - one of four built together as deck-access maisonettes in the 1960's - will include exterior over-cladding and replacement of mechanical services.

In the Hyde Park area of Sheffield, the block will form part of the Games "village". Subsequent finishing works will enable these flats to join Northern Counties Housing Association's stock.

In Sheffield, too, Gleeson has been awarded a £2.84m contract by the City Council for the replacement of private and public balconies to a five-storey block of 133 flats at Edward Street. The works involve piling, fire protection and lighting.

Finsbury Square office development

COSTAIN CONSTRUCTION has been awarded a £12.8m contract by Basan Investments, a subsidiary of Great Portland Estates, for an office development on the corner of Finsbury Square and Wilson Street, London.

The contract includes removal of the seven-storey structural steel building on the site, and construction of a block comprising basement, lower ground, ground floor and six upper storeys with a total area of about 6,370 sq metres. The new building is to be constructed on piled foundations with reinforced concrete ground beams, basement slab and external walls to basement and lower ground floor. The office structure consists of a steel frame with reinforced concrete suspended floors, roof, shear walls and lift shaft.

The building will be clad with natural stone faced and reconstructed stone panels, double-glazed natural bronze and colour-coated aluminium curtain walling and windows. The entrance hall will have marble walls. The contract is due for completion towards the end of December 1991.

Steelwork for Birmingham Airport

Orders totalling more than £5.5m have been won by HORSELEY BRIDGE, Tipton-based business unit of NEI Thompson, which specialises in structural steel fabrication and erection.

The largest contract, worth £4m, is for the supply and erection of 3,000 tonnes of structural steelwork for the second terminal at Birmingham International Airport.

The new terminal, with gates for 10 aircraft, will have capacity for 2,500,000 passengers annually, almost doubling the passenger capacity of the airport. It will have its own customs, immigration, catering and retail services, and a passenger walkway will link it to the existing building.

Horseley Bridge has also been awarded a £1.5m order for steelwork for an early warning building at RAF Fylingdales in North Yorkshire.

The design of the new building will take the form of a nine-storey pyramid.

Work on both these contracts has started, and both are due for completion by April 1990.

£8m services orders for Rashleigh

RASHLEIGH PHIPPS ELECTRICAL, a Trafalgar House company, has been awarded orders worth over £8m.

Under a £3.5m contract at The Exchange, a new shopping centre at Ilford, Essex, Bovis Construction has awarded Rashleigh a contract to install electrical services for the public areas, shop units, landlords areas, and car parks, totalling over 40,000 sq metres. This project is for the Norwich Union Assurance Company.

Under a £2.6m sub-contract from Laing Southern, Rashleigh will supply and install electrical services for a new facility at Maidstone, for Mobil Data Services. The contract includes installation of HV and LV distribution, standby generation, UPS systems, high frequency supplies, fire detection, lighting and general power networks.

At Millbank, London, a refurbishment and new build project being undertaken by Taylor Woodrow Construction for Swedish developer Nisses Anders, has led to Rashleigh being contracted to supply and install the £1.7m electrical services package.

Main contractor Willett has awarded a £380,000 contract to Rashleigh to install all electrical services to the shell and core development at Guidion House, Ancells Business Park, Fleet, for Trafalgar House Business Parks.

Restoring Lee House in Manchester

TEAM MANAGEMENT (NORTHERN) has won a £6m contract to refurbish Lee House in central Manchester, creating 150,000 sq ft of office space and car parking, with a wine bar and restaurant. The facade is Grade II listed. The offices will be around a central courtyard, with Victorian-style canopies and landscaping. The project is scheduled for completion in autumn next year. The remaining part of the complex, known as Churchgate House, is also due to be refurbished, with Team as management contractor. The work, valued at £2m, will run concurrently with Lee House.

Work for Willmot

Building contracts totalling nearly £8m have been won by WILLMOT DIXON.

Work has started on a £2m five-storey office building in Princes Street, Ipswich, for Wickhambrook Investments.

The £850,000 contract to build a 31-bed extension to a residential home for the elderly in Bury St Edmunds has been awarded by Care and Comfort Homes.

Willmot is working on a £3.5m contract to build a two-storey office with basement car park and associated landscaping, at Lytton Way, Stevenage.

Two London contracts are together worth almost £1.5m. One, for the Post Office, involves *building loading bays* and the conversion of a building to form a parcels receiving centre at the East London regional consignment centre. The other is a three-storey office and car park at Prescott Place, SW4, and is for I.M.F.C. Developments.

Mowlem wins Indonesian joint venture project

MOWLEM INTERNATIONAL has been awarded Mulia Tower II, a US$12.9m office development in Jakarta, Indonesia.

The scheme involves the fast-track construction of a 26-storey, reinforced-concrete frame structure, and finishing work, with a double basement and a five-storey *podium* car park.

The client is PT Sanggar Mustika Indah, an Indonesian property developer.

It is a nineteen-months contract which is being carried out in joint-venture with PR Jaya Konstruksi, contractors based in Jakarta.

DIARY DATES

PARLIAMENTARY

Today

Commons: National Health Service and Community Care Bill, second reading.

Motion on 1990 EC Budget documents.

Motion on EC research and development.

Lords: Report of European Community's committee on transport infrastructure.

Debate on health and environmental problems in Poland.

Select committees: Public Accounts: subject, publicity services. Witnesses: Central Office of Information. National Savings. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Motion on war crimes.

Motion on Electricity Supply (Amendment) (Northern Ireland) Order.

Motion on Ministerial and Other Salaries Order.

Lords: Criminal Justice (International Co-operation) Bill, second reading.

Contracts (Applicable Law) Bill, second reading.

Teachers' Pay and Conditions Act (Continuation) Order.

Select committees: Trade and Industry: subject, company investigations. Witness: Mr Michael Ashe. (Room 15, 11 a.m.)

Committee on a private bill: King's Cross Railway Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Wednesday

Commons: Opposition debates on "The effects of Government policy on mortgage costs and housing" and "Famine in Ethiopia."

Motion on Education reform (Northern Ireland) Order.

Lords: Debate on post-war changes in rural and suburban communities.

Debate on the state of museums and art galleries.

Select committees: Foreign Affairs: subject, Hong Kong. Witness: Mr Francis Maude, Minister of State, Foreign Office, and officials. (Room 8, 10.30 a.m.)

Welsh Affairs: subject, incineration plant at Pontypool. Witnesse: Rechem International. Torfaen Council. (Room 18, 10.30 a.m.)

Energy: subject, electricity privatisation and its consequences. Witness Mr John Wakeham, Energy Secretary. (Room 6, 11 a.m.)

Trade and Industry: subject, special shares and the DTI. Witness: Mr Nicholas Ridley, Trade and Industry Secretary. (Room 15, 11.30 a.m.)

Employment: subject, tourism. Witness: Scottish Tourist Board. (Room 20, 4.15 p.m.)

Home Affairs: subject, Criminal Injuries Compensation Board. Witnesses, Lord Carlisle of Bucklow, chairman, and Mr D. North, secretary, of Criminal Injuries Compensation Board. (Room 15, 4.15 p.m.)

Public Accounts: subject, housing needs and allocations and Housing Association grant. Witnesses: Sir Terence Heiser, Department of the Environment, and Mr D. Edmonds, Housing Corporation. (Room 16, 4.15 p.m.)

Transport: subject, aircraft cabin safety. Witness British Air Transport Association. (Room 17, 4.15 p.m.).

Procedure: subject, the working of the select committee system. Witness: Sir Geoffrey Howe, Leader of the House. (Room 8, 5.10 p.m.)

Committee on a private bill: King's Cross Railway Bill. (Grand Committee Room, Westminster Hall. 10.30 a.m.)

Thursday

Commons: Motion on EC documents on fisheries arrangements for 1990.

Landlord and Tenant (Licensed Premises) Bill, second reading.

Motion on Supply of Beer (Tied Estate) and Loan Ties, Licensed Premises and Wholesale Premises Orders.

Lords: Greenwich Hospital Bill, second reading.

Ministerial Salaries Order, motion for approval.

Appropriation (No. 4) (Northern Ireland) Order, motion for approval.

Education Reform (Northern Ireland) Order, motion for Approval.

Abortion (Amendment) Bill, second reading.

Committee on a private bill: King's Cross Railway Bill. (Grand Committee Room, Westminster Hall. 10.30 a.m.)

Friday

Commons: Private members' motions.

FINANCIAL

TODAY

COMPANY MEETINGS-
Keystone Investment Co., 33 King William Street, E.C. 11.00
Lucas Industries, Metropole Hotel, Birmingham, 12.00

BOARD MEETINGS-
Finals:
Airtours
Edencorp Leisure
English China Clays
Eurocopy
Hardys & Hansons
Harris (Philip)
Holmes & Marchant
Scottish & Newcastle
Shaftesbury
Venture Plant Group
Vibroplant Group
Wolverhampton & Dudley Breweries
Interims:
Berkeley Group
Carlton Communications
JLI Group
Learmonth & Burchett Management Systems
Marling Inds.
Racal Electronics
Racal Telecom
Waterglade Intl. Hldgs.
Whitecroft

DIVIDEND & INTEREST PAYMENTS-
Castle Communications 5p
Centreway Tst 1p
Chevron Corp 70cts
Coles Myer $0.24
Elys (Wimbledon) 1p
Exxon Corp. 60cts
First Interstate Overseas NV $299.06
Honda Motor Co. Y7
Keystone Invt. 7p
Lanca 0.75p
Leumi Intl. Invts. NV $48.5
Lloyds Bank $488.19
Midland Intern Fin. Serv. BV $244.1
Mobil Corp. 65cts
Power Corp. 1.8p
Prowting 1.7p
Regentcrest 0.5p
Royal Bank Of Canada $232.34
Sears 1.525p

TOMORROW

COMPANY MEETINGS-
Majedie Invs., Baltic Exchange, E.C., 12.15
Photo-Me Intl., Church Road, Bookham, 4.00
Scottish Metropolitan Props., Albany Hotel, Glasgow, 11.30

BOARD MEETINGS-
Finals:
Archimedes Inv. Tst.
Blick
Chemring Group
Devenish (J.A.)
Granada Group
Mining & Allied Supplies
Polar Electronics
Richards
Stakis
TMD Advertising
Tison Hldgs.
Interims:
BSS
Creighton's Naturally
Dowty
Halma
Harland & Simon Group
Hoskins Brewery
Melville Street Invs.
Triplex Lloyd
Turnbull Scott
Vaux Group

DIVIDEND & INTEREST PAYMENTS-
Allied Irish Banks 3.25p
Britannia Security 1.82p
Exchequer 12% Stk 2013/17 6pc
Govett American Endeavour Fd. 10.18cts
Hewden-Stuart 0.75p
Hunting 3.5p
London & St. Lawrence Invt. 2.34p
Rothschild (J.) Hldgs. 5p
Tenneco Inc. 76cts

WEDNESDAY DECEMBER 13

COMPANY MEETINGS-
GC Flooring & Furnishings, George House, *Perivale Industrial Park, Middlesex*, 10.00
Low (Wm), Baird Avenue, Dryburgh Industrial Estate, Dundee, 12.00
UDO Hldgs., Great Eastern Hotel, E.C., 12.00

BOARD MEETINGS-
Finals:
Baggeridge Brick
Colonnade Development Capital
Thornton (G.W.)
Interims:
Authority Invs.
Bulmer (H.P.) Hldgs.
Charter Consolidated
Danae Inv. Trust
ERF
Fuller Smith & Turner
Honda Motor
London Securities
M & G Second Dual Trust
Maxwell Communication
Moorgate Inv. Trust
NMC Group
Priest (Benjamin)
Smith New Court
Stewart & Wight

DIVIDEND & INTEREST PAYMENTS-
East Surrey Water Co. 1.4895p
Do. Ord. "B" Stk. 1.0267p
Do. Ord. "C" Stk. 0.7346p
Glynwed Intl. 4.15p
Halls Homes & Gdns. 2p
Johnston Grp. 4p
Midland Bank $483.76
Photo-Me Intl. 4.8p
Royal Bk. Of Scot. $470.21
Securities Tst. Of Scotland 0.9p

THURSDAY DECEMBER 14

COMPANY MEETINGS-
Barbican Hldgs., Farmers & Fletchers Livery Hall, 3 Cloth Street, E.C. 11.00
British Assets Trust, 1 Charlotte Square, Edinburgh, 12.15
Fisher (Albert) Group, 16 High Street, Windsor, 12.00
Fleming Japanese Inv. Trust, 25 Copthall Avenue E.C. 12.00
Investors Capital, 1 Charlotte Square, Edinburgh, 12.00
Maxiprint, 36 Elder Street, E. 11.00
Moray Firth Exploration, 14-20 St. Mary Axe, E.C., 11.00
Overseas Inv Trust, Barber Surgeons Hall, Wood Street, E.C. 12.00
Regina Health & Beauty Products, Westlodge Park Hotel, Barnet, 3.00
Scottish National Trust, 128 West Regent Street, Glasgow, 12.00
Smart (J.), 28 Cramond Road South, Edinburgh, 12.00
Unigroup, 38 St. Andrew's Hill, E.C. 11.00
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30

BOARD MEETINGS-
Finals:
Associated Paper Inds.
Brown & Tawse
City Site Estates
Compass
Hambros Advance Tech.
Hoskyns
Johnson & Firth Brown
Lee (Arthur)
Shoprite
Speyhawk
Watson & Philip
UK Land
Interims:
Borthwicks
Eliza Tinsley Group
Eve Group
Fine Art Devs.
Firth (G.M.) Hldgs.
Gold Greenlees Trott
Great Portland Ests.
Hunter Saphir
London Merchant Securities
Russell (Alexander)
Yellowhammer

DIVIDEND & INTEREST PAYMENTS-
Amstrad 1p
Bank Of Tokyo (Curacao) Hldg. NV $231.90
Banque Nationale De Paris $372.89
Citicorp Overseas Finance $23.22
Conversion 9½% Stk. 2002 4¾pc
Everest Foods 3.5p
Hemlo Gold Mines 10cts
Leeds Permanent Bldg. Soc. £352.16
Mercury Asset Management 5p
Nedlibra Finance BV £2322.4
Riva Grp. 2p
Southeast Bldg. Corp. $457.05
Warburg (S.G.) 4.5p
Western Motor Hldgs. 5p

FRIDAY DECEMBER 15

COMPANY MEETINGS-
British Empire Sec. & Gen. Tst. Saddler's Hall, E.C. 12.00
Hatfield Estates, 1 Forum Place, Hatfield, Hertfordshire, 12.00
Lowland Investment Co., 3 Finsbury Avenue, E.C., 2.30
McKechnie, Metropole Hotel, Birmingham, 12.00

BOARD MEETINGS-
Finals:
Grainger Trust
Guinness Mahon Hldgs.
McCarthey & Sons
Strata Invs.
Yorkshire TV
Interims:
ASDA
Booth Inds.
Brasway
Bristol Evening Post
British Building & Engineering Appliances
CH Inds.
Compco Hldgs.
Lees (John)
Microlec Group
TGI
TR Technology
Wellman

DIVIDEND & INTEREST PAYMENTS-
AECI 5.5cts
Abbey Ntl Bldg. Soc. £410.24
Astec (BSR) 2¼pc
Bowthorpe Hldgs. 1.41p
CSX Corp. 35cts
Caisse Nationale Des Autoroutes 16% Gtd. Stk. 2006 8pc
Do. 16% Gtd. Stk. 2006 (Br £5000) 8pc
CalFed Inc. 35cts
Canadian Overs Pack Inds. 44cts
Cummins Engine Co. Inc. 55cts
Dana Corp. 40cts
East Rand Gold & Uranium Co. 11.9184p
Do. "S" Ord R0.30 11.9184p
English & Intl. Tst. 0.6p
Equity & General 0.5p
Era Grp. 1p
Estates & Agency Hldgs. 2.25p
FPL 57cts
Fleming Far Eastern Inv. Tst. 0.2p
Fleming Universal Inv. Tst. 0.6p
Free State Cons. Gold Mines 38.75848p
Do "S" Ord. R0.50 38.75848p
Guidehouse Grp. 5.15p
Investors Capital Tst. 1.8375p
Leslie Gold Mines 40cts
Louisiana Land & Exploration 25cts
M. & G. Midland & Gen. Tst. 19.157p
Mercantile House Hldgs. 7.23863pc
Orange Free State Invts. 92.98427p
Pacer Systems Inc. 3cts
Pennzoil 75cts
Peters (Michael) Grp. 2p
Regina Health & Beauty Products 0.5p
Royal Tst. Yen Bond Fd. Y1.5
St. Lawrence & Ottawa Railway Co. 2pc
Scottish Cities Inv. Tst. 17p
Do. "A" Non. V. 17p
Seagram 35cts
Shandwick 1.8825p
Smith & Nephew 1.735p
Sotheby's Hldgs. Inc. 8cts
Thompson Corp. 10.5cts
Treasury 8¾% Ln. 87/90 4⅜pc
Trinova Corp. 17cts
Unisel Gold Mines 90cts
United Biscuits (Hldgs.) 4pc
Wagon Ind. Hldgs. 3.825p
Welkom Gold Hldgs. 23.83889p
Welsh Ind. Inv. Tst. 1p

APPOINTMENTS

Chairman of National Provincial

■ NATIONAL PROVIDENT INSTITUTION has elected Lord Remnant as chairman from January 1. He succeeds Mr Jeremy Hardie who is retiring. Lord Remnant has been on the board since 1963, and is deputy chairman of Ultramar. Sir Christopher Foster of Coopers & Lybrand, who was chairman-elect at NPI, has resigned from the NPI board. This is to avoid possible conflicts of interest arising out of the proposed merger between Cooper & Lybrand, and Deloittes, NPI's auditors.

■ PEARCE CONSTRUCTION, part of Crest Nicholson, has promoted Mr Peter Clark from managing director, south west, to group deputy managing director. He is succeeded by his deputy, Mr Don Ross.

■ CARROLL GROUP has appointed Mr Stephen Beer to the board of its UK retail property development and investment division. He was a main board director of Clayform.

■ Mr Jeff Wykes has been appointed client services director of SHERWOOD COMPUTER SERVICES. He was European regional customer support director with Cullinet Software. Mr Peter O'Hara joins as finance director from Abbey National Bank finance and insurance services division where he was a consultant. Mr Adrian Gyde has been promoted to finance director, and Mr Colin Ballantyne to client services director at subsidiary Sherwood Financial Systems.

■ Mr Barrie Davies has been appointed group financial controller at TOWER DISPLAY, exhibitions contractor. He was financial director at Egerton Trust's healthcare group, PPP Beaumont.

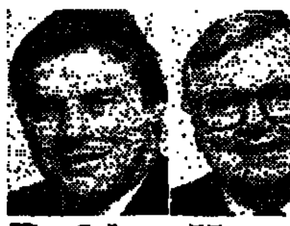
■ Mr Nicholas Greenwood has been appointed director of business development at CAPSCO SOFTWARE EUROPE, a subsidiary of Swiss Re. He was a partner at Bacon & Woodrow.

■ THORN EMI has appointed Sir Graham Day, chairman of Cadbury Schweppes, as a non-executive director from January 1.

■ Mr John Houliston has been appointed deputy chief executive of DAIRY CREST from January 10. He was managing director of Ross Young.

■ *Mr Mervyn Blakeney has* been appointed a non-executive director of WATSON & PHILIP from January 1. He was a main board director of Cadbury Schweppes, and managing director of Schweppes International. Mr J.C. Hadden, a non-executive director, has resigned. Mr Edward H. Thompson, group director, delivered grocery/retail division, becomes managing director of new subsidiary W. & P. Food Distributors. Mr *Simon C.J. Kirkpatrick, group* director, cash and carry, becomes managing director of W. & P. Cash & Carry. Mr Hamish M. Inglis, group director, catering division, has been made development and planning director for the group.

■ Mr Geoff Topping becomes managing director of TAYLOR WOODROW CONSTRUCTION from January 1. He was joint assistant managing director, and succeeds Mr Tony Palmer who becomes group chief executive from the same date.



Trafalgar House subsidiary posts

TRAFALGAR HOUSE BUILDING & CIVIL ENGINEERING HOLDINGS, comprising 16 operating companies, has appointed Mr Ken E. Chambers *(left)* as finance director. He was vice president finance with Matthew Hall in the US. Mr David E. Driver *(right)* becomes managing director and deputy chairman of the sub-contractor companies - Rashleigh Phipps; Trollope & Colls Joinery; Samuel Elliott & Sons; and Clark & Fenn. He joins from Drake & Scull.

Trade fairs and exhibitions: UK

December 20-24
Late Late Christmas Shopping Show (01-378 7131)
Olympia

January 4-14
London International Boat Show (0932 854511)
Earls Court

January 6-10
International Lightshow Exhibition (0588 4658)
Olympia

January 10-12
Supercomputing Exhibition and Conference - SUPERCOMPUTING EUROPE (01-948 5166)
Olympia

January 12-14
British Horse and Rider Show (01-834 1717)
Wembley Centre

January 13-18
International Toy Fair (01-226 6653)
Harrogate

January 23-25
Enterprise Exhibition (01-642 7688)
Barbican, London

January 27-31
British International Toy and Hobby Fair (01-701 7127)
Earls Court

January 30-February 1
Construction Industry Computer Exhibition (01-251 5885)
Barbican

February 4-8
International Spring fair (01-855 9201)
NEC, Birmingham

February 7-9
Undersea Defence Technology Conference and Exhibition (0892 44027)
Novotel, London

February 7-11
Scottish Boat, Caravan, Camping and Leisure Show (041-221 1769)
Exhb and Conf Centre, Glasgow

Overseas exhibitions

Current
Business Fair - RIO NEGOCIO (01-499 0877) (until December 17)
Rio de Janeiro

December 12-15
International Telecommunications Exhibition - EUROCOMM (01-495 7977)
Amsterdam

December 15-17
Printing Exhibition - WORLD PRINT EXPO (01-828 1661)
Hong Kong

January 8-11
International Hotel, Restaurant and Catering Industries Trade Fair - HORECAVA (01-495 7977)
Amsterdam

January 10-13
International Home and Household Textiles Trade Fair - HEIMTEXTIL (01-734 0543)
Frankfurt

January 12-17
Carpets, Rugs, Decorative Goods and Home Accessories Exhibition; and Jewellery, Gold and Silverware, Clocks, Watches and Gifts Exhibition (01-225 5566)
Paris

February 9-18
International Boat Show (01-486 1951)
Helsinki

Business and management conferences

December 11-12
Frost & Sullivan: Supervising personnel in a professional and technical environment (the Tritt method) (01-730 3438)
London

December 12
IGS (UK): Property developments and Government grants in the inner cities (01-863 6479)
Cafe Royal, London

December 13
Croner Conferences: Hazardous waste management in the 1990s (01-547 3333)
Royal Garden Hotel, London

December 13-14
The Strathclyde Institute: International conference on strategic manufacturing (041-552 40117)
Gleneagles Hotel

December 14-15
Euromanagers '89 Congress: Towards a Euromanagers' market - issues and initiatives (Brussels: (32-2) 5208188)
Brussels

January 11
Textile Institute: Textile interiors - a challenge to innovation (061 834 8457)
Heimtextil Exhibition, Frankfurt

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL TIMES SURVEY

As the proportion of elderly people in the population rises, the British Government wants charities to play a bigger role in providing services to the public and is trying to promote an increase in giving to charities. Alan Pike looks at the prospects for the voluntary sector

CHARITIES

CONTENTS

The slow drip feed of giving

THE SEASON for making rash, blanket prophecies about the 1990s has arrived, and one of the fashionable ones is that Britain is about to become a more caring society, with a growth in community and voluntary activity.

There are at least three grounds for believing that this may prove to be the case.

1. The proportion of elderly people in the population is rising sharply. This alone will increase the demand for care.

2. Unless there is a radical change in political direction, the 1990s will see a trend towards voluntary and private agencies, rather than statutory departments, in the provision of welfare and other services.

3. An increasing number of people who have enjoyed real income growth in the 1980s will want to put something back into society by donating their time or money.

There is no doubt about the growth in the proportion of the elderly and very little about the trend to rely on voluntary agencies for welfare services. But whether those whose real income has gone up in the past few years will become more generous to those who have not done as well remains, at best, a moot point.

What, however, is certain is that Britain's charities and voluntary organisations stand on the threshold of a period of great challenge and change. The next decade will put them under legal and commercial pressures to become more efficient, and open up opportunities for development and expansion provided they have the organisational skills and finance to take advantage of them.

These pressures — combined with changes like this autumn's lifting of the ban on television advertising by charities — are likely to see Britain's biggest and most businesslike charities becoming bigger and more businesslike, probably at the expense of some smaller ones.

"Everyone who comes to me says that their charity is unique, and all are right," says Mr Robin Guthrie, the chief Charity Commissioner. There are tiny individual and "village green" charities, educational and religious charities, research and campaigning organisations registered as charities and service-delivery charities.

Britain has no statutory definition of what constitutes charity, and still operates on a classification by Lord Macnaghten in a famous 1891 court case. This, adopted again by the Charity Commission in a statement of its role last month, sees the purposes of charity as "the relief of poverty, the advancement of religion, the advancement of education and other purposes beneficial to the community."

There are more than 165,000 charities registered with the Charity Commissioners, while the total number of voluntary organisations is estimated at around 350,000. In cash terms, the charity sector represents about 4 per cent of GDP, handling funds of around £13bn a year, and anything up to a remarkable 10 per cent of GDP when an estimated value is put on voluntary activity.

At intervals during the long history of charity in Britain, public concern has been expressed about the state of the sector — worries about corrupt and incompetent administration led to the creation of the Charity Commissioners early in the last century.

Such concern has been renewed during the late 1980s. In 1987 both the National Audit Office and a report from a scrutiny team led by Sir Philip Woodfield called in strong language for action against sloppy accounting practices, fraud and abuse. A white paper in May set out Government proposals to overcome fraud and mismanagement, and a Bill is almost certain to be introduced in Parliament next autumn.

Many changes which do not require legislation are already taking place. The Charity Commission is being strengthened. Its investigation team, only four-strong a few years ago, has been increased to 40.

Over the next four years its entire register of charities — described as unreliable and out of date in the National Audit Office report — will be computerised. This will enable the commissioners to run random checks on selected charities while those which fail to, for example, submit regular accounts will have warning notes added to their computer files.

"There have been various attempts through the years to regulate charities," says Mr Guthrie. "But this is the first time a combination of political will and technology has provided the means to do it."

Charity fraud is probably not particularly widespread, and this is not the only reason for the Government wanting a more efficient, better-regulated voluntary sector.

It is trying to promote an increase in charitable giving, and people are more likely to support charities if they have confidence about the way they are run and regulated. And the Government wants voluntary organisations to play a bigger role in providing services to the public. The growth of housing associations has been one recent example of this and the reform of community care for the elderly and handicapped, under which local authorities will be responsible for arranging care but will be encouraged to use voluntary and private organisations to provide it, will be another.

This change of political emphasis towards the voluntary sector will lead to government departments, local authorities and health authorities entering into clear, businesslike contracts with charities for the provision of specific services, rather than funding them through more general grants.

The key to a successful shift of services to the voluntary sector is finance. High unemployment and social security changes during the 1980s have produced heavy demands on many charities' resources. Voluntary sector leaders stress that they cannot compensate for reduced state welfare spending, and are not willing to run former public services on the cheap.

They are also worried that changes in health, education and other services are, in effect, forcing large parts of the public sector to function like charities themselves. "On at least two occasions in the past year, Save the Children has been turned down for funding by a potential corporate donor in favour of a city technology college," says Mr Nicholas Hinton, Save the Children's director-general.

A similar point was made last week in a report from the Directory of Social Change and National Council for Voluntary Organisations. This argued that the use of public money was turning the National Health Service into a unfair fund-raising competitor with charities.

"And if it is right for taxation to pay for charitable appeals by hospitals, will it also be introduced to pay for appeals by every school, every public library, indeed every public institution in the land?" asked the report.

Ministers are currently conducting a scrutiny of state funding of the voluntary sector, and the National Council for Voluntary Organisations has stressed the need for public money to be used as a "strategic resource to provide a stable backdrop for other forms of fund-raising." Mr Michael Brophy, director of the Charities Aid Foundation, says the Government must spell out clearly what it sees as the role of charities and that of the state.

Recent research does not suggest that Britain is becoming more generous in its financial support for charities. In its 1989 "Charity Trends" last month, the Charities Aid Foundation showed that donations by leading companies have declined from 0.21 per cent of pre-tax profits in 1985-86 to 0.18 per cent last year, while average individual donations are still only around £2 a month.

"We are a brilliant nation at disaster giving," says Mr John Patten, the Home Office Minister chairing the Government's voluntary sector scrutiny. "If a lifeboat turns over or we see pictures of famine in the Third World, the British are as generous as any country. But in terms of the slow drip feed of regular, small amounts of giving, we are still on the starting blocks."

He will be approaching the CBI, Institute of Directors and chambers of commerce in the next few months to explore ways of boosting the Government's payroll giving scheme, which offers tax incentives when charity contributions are deducted from employees' salaries. The growth of payroll-giving, which is unlikely to raise £7m this year, has, he admits, been slower than expected.

Mr Patten wants to see both voluntary activity and corporate support for the voluntary sector grow — his ideal is the much more strongly-supported charity sector in the US. He believes that community involvement by business, in terms of direct charitable support, the supply of equipment and secondment of staff, will occupy a growing place on the national agenda for the next decade.

"I think there is some evidence that more employees in the future will want to work for socially responsible companies. In a time when labour market conditions are very tight, as they will be in the next few years, bigger companies may well find themselves promoting their social responsibility as part of the incentive to people to work for them."

CHARITIES 2

Alan Pike, Social Affairs Correspondent, on the importance of corporate support

Shell: grants are good business

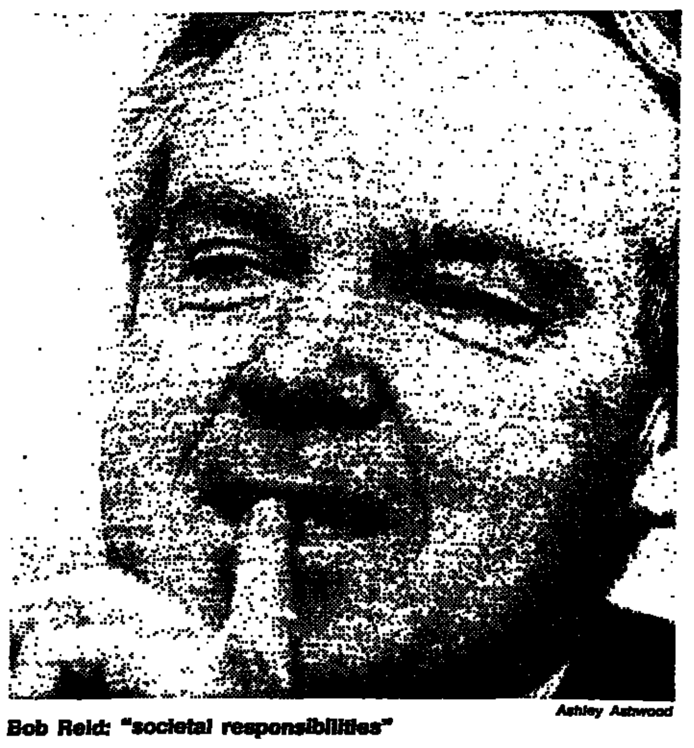
SHELL UK last year made a total contribution to the voluntary sector worth £4.8m, of which nearly £1.5m was in direct cash donations.

This puts the company in a top ten league table of Britain's leading corporate charity supporters, which is headed by British Telecom and National Westminster Bank – both exceeding £11m in total corporate support – Barclays Bank and BP.

Last year 30 UK companies donated £1m or more to the voluntary sector when financial contributions and the value of assistance-in-kind were combined, with the majority of these giving substantially more than £1m. But even companies with such relatively generous records of support for charity have to turn down most of the thousands of requests for help which they receive.

So why does a company like Shell give away any of its profits to outside causes? And how does it choose which causes to support?

"Large companies are part of the fabric of society, and we believe this creates expectations and places obligations upon them to take on societal responsibilities beyond those areas directly relevant to their business activities," said Mr Bob Reid, Shell's chairman, in a recent lecture on corporate social responsibility.



Ashley Ashwood

Bob Reid: "societal responsibilities"

He acknowledged that the company's motives in taking this view of its social obligations were not totally altruistic. "By taking a constructive interest in social matters we are reinforcing our identification with society.

"If we can gain acceptance as a responsible, understanding and sympathetic neighbour, the size of the audiences prepared to give us a fair hearing in matters of public debate about our activities is increased. In other words, social responsibility is good business and good business is socially responsible."

Shell has a long history of community involvement and, as in a growing number of larger companies, the subject is regarded as mainstream and important enough to be the responsibility of a full-time specialist community affairs unit.

The activities of the unit divide between responding to thousands of straightforward requests for financial assistance which Shell receives each year, and setting up more substantial sponsorship and partnership projects.

Shell has a policy of making a large number of relatively small grants and charitable donations rather than a few large ones. A grants committee of senior managers is responsible for considering requests – although in reality most day-to-day decisions are made by a full-time grants secretary within guidelines set by the committee.

Successful applicants are likely to receive around £1,000 and Shell expects nothing back from this in terms of publicity or recognition. But only about 5 per cent of the applicants succeed.

Shell has chosen to concentrate its community involvement on the support of activities in four main areas – enterprise, education, the environment and the arts – and these themes are reflected in both its general grant-making policy and its support for more specific projects.

The company responded to the growth of unemployment, particularly youth unemployment, in the late 1970s by detailing selected executives to examine ways in which small businesses could be stimulated. This put Shell among the earliest supporters of the enterprise agency movement, as well as leading to the development of the Livewire scheme to assist 16-25 years olds in creating their own work. This has helped 5,000 young people into self-employment.

Mr Peter Hunt, manager, education and enterprise in the community affairs unit, says Shell does not scatter money or other resources at random good causes but concentrates on areas where the company believes it can make a specific, positive contribution. It does not see itself in competition with other companies to be one of the biggest corporate donors, but is concerned to put time and energy into its community involvement programme to produce good quality results.

The company has provided schools with educational materials on oil-related subjects for 33 years – well before corporate community affairs become fashionable. More than 40 universities and polytechnics receive funds from Shell for research, scholarships and professorial chairs.

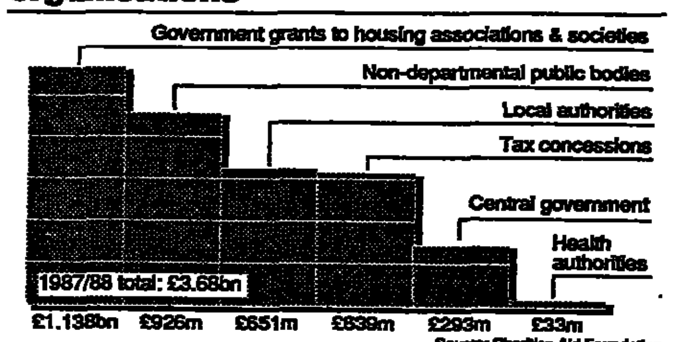
Other major activities are as diverse as Waste Watch – a scheme to recycle household waste run in conjunction with the National Council for Voluntary Organisations – the Shell Better Britain Campaign, set up to help community groups with local environmental projects, and a music scholarship organised with the London Symphony Orchestra.

Mr Hunt stresses that it is not only the community that benefits from Shell's social initiatives – they have great potential value within the company.

At any time Shell is likely to have around 10 managers on full-time secondment to other organisations, selected and deployed to develop their own careers as well as making management expertise available to voluntary organisations. The company has also established an annual £100,000 budget from which any Shell employee who is an officer of a local voluntary group can obtain assistance of up to £350 for the organisation.

This scheme is an example of how Mr Reid sees that social responsibility has become part of Shell's company culture. "It is not a bolted-on good works department, but a whole programme of activities in which a great many of our employees at all levels are actively involved, as are many of our pensioners."

Public sector support for voluntary organisations



Source: Charities Aid Foundation

COMPANIES GIVING MORE THAN £1m IN CORPORATE SUPPORT FOR THE VOLUNTARY SECTOR IN THE UK

	Total corporate support (£000)	Cash donations (£000)	Pretax profit (£000)
Allied Dunbar	1,195	1,068	-
Barclays Bank	9,596	2,710	1,067,000
British Gas	6,000	-	1,054,000
British Nuclear Fuels	1,404	198	100,000
British Petroleum	9,000	6,300	828,000
British Telecom	11,841	5,289	2,437,000
Cadbury Schweppes	1,515	170	215,700
Digital Equipment	1,776	150	-
Esso	3,500	1,231	302,500
General Accident	1,599	258	290,300
Glaxo	1,149	420	632,000
Grand Metropolitan	1,220	-	575,100
Heron International	1,606	1,511	61,200
IBM	4,243	1,108	511,500
Imperial Chemical Industries	5,396	3,170	1,470,000
Lloyds Bank	3,500	938	843,000
Marks & Spencer	4,025	-	529,000
Midland Bank	3,689	784	693,000
National Westminster Bank	11,340	2,147	1,407,000
Nestlé	1,036	368	55,100
Prudential Corporation	1,146	490	339,600
RTZ	1,099	849	879,000
Royal Bank of Scotland	1,634	684	309,200
Royal Insurance	1,055	424	223,400
Shell	4,843	1,483	285,000
Smith Kline & French	1,232	1,075	4,255
Trustee Savings Bank	2,661	2,661	420,100
Unilever	2,464	931	1,454,000
United Biscuits	1,020	381	120,000
Whitbread	1,680	871	223,200

Figures for 1988-89

Source: Charities Aid Foundation

Benefactors urged to come to the aid of the community

THERE IS hardly an industrial town in Britain which does not have cause to be thankful to some 19th-century business benefactor for the provision of a library, college, hospital or housing development.

Philanthropy, out of a mixture of motives, was commonplace in the days when the leading local industrialist lived in the big house on the hill overlooking the factories or mills which produced his wealth.

The head offices of today's companies are far more likely to be located in impersonal buildings in London or overseas, making relationships between modern businesses and local communities more distant than in the Victorian past. But during the 1980s business leaders have again faced calls to extend their sense of social responsibility beyond creating wealth and providing employment, and invest in local communities and voluntary organisations.

The call has been led by the Government, particularly so far as trying to persuade industry and commerce to support schemes designed to revive Britain's inner cities is concerned.

It has been taken up by a number of organisations, notably Business in the Community which has been responsible for encouraging the growth of local enterprise agencies and business involvement in education-industry partnerships, employment initiatives, housing and environmental improvement schemes and many other local-level activities. BIC also pioneered

Relationships are more distant than in the Victorian past

the Per Cent Club, under which member companies pledge to devote at least half a per cent of their pre-tax profits to community and charitable causes.

During the 1980s many individual charities have increased their concentration on the business community as a source of both direct financial support and partnership arrangements.

The National Council for Voluntary Organisations has this year established a Corporate Affiliation Scheme to enhance links between the corporate and voluntary sectors, and encourage companies to develop partnerships with voluntary organisations. Support for the scheme has come from the Department of Trade and Industry, the CBI and the Institute of Directors, and more than 20 leading companies have so far become members.

Companies contribute more than money to the voluntary sectors, and one of the growth areas during the 1980s has been in the secondment of staff. The Action Resource Centre, which acts as a broker between companies wishing to second staff and voluntary organisations seeking their services, last year arranged more than 10,000 days of secondment work by 174 secondees. This resulted in 1,757 community organisations receiving professional assistance from secondees which, says ARC, was the equivalent of £1.4m-worth of resources in kind.

Knowing how to make a successful approach to business is outside the direct experience of many smaller voluntary organisations. To assist them, the Volunteer Centre UK has published a booklet and set of worksheets which promotes the message that approaches are more likely to succeed if they are based on a clear strategy rather than random requests for help.

Although seeking finance from business has become a growing priority for charity fund-raisers during the 1980s, the overall value of corporate support remains small compared with other sources of charity income. New Charities Aid Foundation figures show that last year 207 of Britain's largest companies donated around £142m-worth of assistance – £61m of it in direct cash contributions – to charities and voluntary organisations.

This compares with central government grants of £293m and total public sector support – when such factors as the funding of housing associa-

British charity organisers look with envy at the US

tions, local government and health authority spending on the voluntary sector and tax concessions are taken into account – of £3.6bn in 1987-88.

Estimates suggest that individual donors give a broadly equivalent amount to charity – between £3bn and £4.5bn a year – plus the uncosted contribution of the time of volunteers.

Corporate support has grown steadily in cash terms during the 1980s – Charities Aid Foundation research shows a 58 per cent increase in real terms in the giving of the top 400 companies between 1984-85 and 1987-88. But there has been a slight drop in the percentage of pre-tax profits devoted to charitable activity.

British charity organisers look with envy at the US, where corporate support for voluntary activities was worth an estimated £2.6bn last year, excluding donations from company charitable foundations.

Alan Pike

INVESTMENT MANAGEMENT

Cost of being authorised

CHARITIES ARE now big business as far as investment management is concerned.

It is estimated that the aggregate total of funds held by charities is now in the £15bn to £20bn range and growing steadily. Roughly half this amount is available for long-term investment.

The growing demands on many charities and the cost pressures of administration, both hit-hard by inflation, make it imperative that trustees make maximum use of the funds entrusted to them. It is no longer sufficient simply to put the funds in a bank deposit until needed.

The responsibility for the investment of charity funds rests solely with the trustees themselves. Trustees should have their investment powers laid down in the trust deed.

Generally, powers can vary from those laid down in the 1961 Trustee Investments Act to very wide powers which give trustees considerable investment freedom.

However, trustees will usually be able to delegate the investment management, though they will still retain the overall responsibility for the use of the funds.

No longer is it enough to put funds in a bank deposit until needed

This is an important consideration because, with investment markets growing ever more complex, professional investment management is essential to ensure maximum use of charity funds.

Here, the 1986 Financial Services Act impinges on the investment operations of charities, as it has affected all investment operations.

Prior to the Act, many charities received top investment advice free from professional investment managers acting in a personal capacity rather than for the merchant bank or stockbroker where they were employed.

But under the Act such professionals cannot give individual advice unless they are authorised. Very few managers are willing to incur the expense and cope with the hassle of getting authorised.

The managers are authorised only to give investment advice and handle investments as directors, executives or employees of the merchant bank or stockbroker. So any advice given by such persons has to be given in the name of the merchant bank or stockbroker, with responsibility for any advice resting with the employer. And that usually costs money in the form of fees, and fees are rising.

Thus when conditions make it ever more necessary for charity trustees to have properly organised investment portfolios expertly handled, the legal requirements act as a financial deterrent to getting such advice.

Other articles in this survey show just how varied are the purposes and objectives of charities, and the underlying investment strategies will be just as varied.

Charities have wide-ranging objectives. It is likely that investing for income will have considerable prominence in many charities — far more prominence than is found in pension funds, life company funds or unit trusts. Such portfolios will need to be structured with the prime aim of maximising income — indicating a bias towards fixed-interest holdings.

Nevertheless, in an inflationary era, it is essential that capital values are at least maintained as far as possible — indicating a bias towards equity investment.

Moreover, charities will be experiencing widely differing cash flows. Some will be receiving a steady and regular income stream into their funds, usually accompanied by a steady outflows to fulfil the particular charity's objectives. Others will have no income other than what is generated by the assets.

The pattern of inflows and outflows of money within a particular charity has a vital bearing in the overall structure of a portfolio.

Above all, there is a need for stability within the investment portfolios. Charities do not have investment reserves backing their funds, as with a life company, or an employer providing a financial underwriting undertaking as with a pension fund.

Hence, charity portfolios tend to eschew the more riskier type of investment.

They also need assets that can be easily realisable, hence very little investment is made directly into property.

All these factors highlight the need for a personalised approach to charity investment management, far more personalised than with, say, a unit trust where the usual aim is simply to maximise the return.

The major and several minor finance houses have had charity investment departments established for decades, investment managers within those departments being associated with charities for several years.

Indeed, many investment managers do far more than simply invest the assets on behalf of the trustees. In acting for a wide range of charities, these managers have acquired a wide knowledge of all aspects of charity operations and as such can provide a valuable service on all aspects of charity work.

Cazenove, the only major independent stockbroking firm in the City, has some £600m of charity funds under management on both a discretionary and non-discretionary basis. It still operates on a non-fee basis, receiving its remuneration on the commission generated from the underlying investment deals.

Mr Nicholas Pearson, of Cazenove's charity investment department, who has been handling charity funds for more than 15 years, says that often managers have to adopt a backwards approach to fund management starting from what charities need and then working backwards to get a balanced portfolio to meet those needs — an approach that is now just being considered in pension fund investment.

Investing for income is likely to have more prominence

Nevertheless, cost pressures on all funds are rising to such an extent that managers are looking at the "pooled" fund approach to investment management.

One or two pooled funds have been available for several years. But the Charities Aid Foundation, with Cazenove as investment managers, have recently expanded the pooled concept with their Cafinvest Income Fund and Cafinvest Balanced Growth Fund.

These funds are registered as charities and are special range holdings. So not only do they provide expert management on a cheaper basis than segregated fund management, but they enable charities to hold equity investments beyond the limits of the 1961 Trustee Investments Act.

Cazenove will provide administration services, if required. Many charities, however, prefer to handle their own administration. However, with growing costs and the rundown of the Official Custodian department, pooled funds provide considerable administration cost savings.

How have charity funds performed?

The WM Company, the largest performance measurement service provider in the UK, has been operating a measurement service for charities since 1984.

Obviously, its service is used only by the major charities with professional management.

In aggregate, these funds hold around three-quarters of their assets in UK and overseas equities. Over the past five years, the annual rate of return on the assets has been over 15 per cent — double the inflation rate over the period.

This highlights the benefit of professional management. But such returns are available to smaller charities through the pooled fund route.

Eric Short
Pensions Correspondent

Lord Whitelaw took the chair and Lady Soear spoke at last month's Charity Conference and Exhibition in London. Partners and staff of accountants Gane Jackson Scott gave advice

THE RED CROSS

Why the best kind of gift is money

THERE WERE, remarks Mr David Wyatt, international director of the British Red Cross, with only a grain of irony, two disasters in Mexico. One was the earthquake, the other the arrival of the relief workers.

The British Red Cross, the British arm of the world's largest voluntary organisation, is probably best-known at home for its domestic medical and community work. But it is also one of the country's leading overseas relief charities. When aid is required, it is Mr Wyatt's job to ensure that it not only arrives, but that catastrophes are not made worse by the wrong sort of help.

It is easy for this to happen.

Ball gowns — and left-footed shoes — for disaster scenes

Bulky and relatively non-urgent goods can block up airports, delaying the arrival and distribution of higher-priority supplies. Stories of disaster scenes being flooded with donations of ball gowns and thousands of left-footed shoes may sound fanciful, but relief workers say they are true.

"I am afraid a lot of well-intentioned help does more harm than good," says Mr Wyatt. "It is very difficult to tell people that you don't want their gifts, but we must encourage those who seek to assist to concentrate on meeting the needs of the victims, not the needs of the donors."

The concept of the "needs of the donors" encompasses a number of motives. Part of it is what Mr Wyatt describes as the "I must go and help syndrome." Well-intentioned volunteer workers arrive at earthquakes, floods and other disaster scenes without local knowledge, unable to speak the language and unprepared for the food and living conditions they will experience. Not infrequently, such "relief workers" make a net contribution to the overall problem they come to resolve.

Meanwhile, back home in the West, a distant disaster can become an excuse for a huge jumble sale. People who, again out of good intentions, donate clothing and blankets, fail to take account of the time and expense of sorting and shipping tonnes of often-unsuitable materials across the world.

Unsolicited drugs can be an even bigger problem, taking up the precious time of medically-qualified staff in sorting out what is safe and suitable among pharmaceuticals which usually have their instructions in unfamiliar languages. Sometimes, large quantities of drugs which have been banned in the West turn up at Third World disasters as relief supplies.

Even apparently useful donations can be rendered worthless unless they are matched to particular needs. A large part of the aid sent to

Drugs banned in the West turn up as relief supplies

Bangladesh after floods affected two-thirds of the country was in the form of tents, even though there was no dry land on which to pitch them. Food aid can be unsuitable for local needs, depress prices in the economy of the disaster area, or just go rotten before arriving.

Mr Wyatt gives a two-part answer to the question of how international relief agencies can best overcome these problems.

"From the outset, you must restrict yourself to providing only the help that is requested. We do not know from thousands of miles away precisely what is required to tackle a particular problem. That decision must be made by people at the scene."

The Red Cross achieves this by operating through its worldwide network of national Red Cross (and Red Crescent) societies. Local organisers submit their requests for help to the Geneva headquarters, which channels them to selected national societies around the world.

This approach is linked to a clear pre-disaster preparedness programme. The British Red Cross maintains its own warehouse of essential supplies in London, ready to be flown anywhere in the world. By using their standby stock, Mr Wyatt's staff were able to fly more than 1m water purification tablets and 10 huge water containers to the Leeward Islands within hours of a request for help after Hurricane Hugo destroyed the fresh water supply in September.

The other part of Mr Wyatt's reply is a familiar one in the charity world. No donations in kind — even the best and most essential of them — are as easily and swiftly transferable as money.

David Wyatt, international director, British Red Cross

About 60 per cent of all the aid channelled through the Red Cross's international network is in the form of food, clothing, vehicles, medical supplies and other types of material assistance. But the other 40 per cent arrives more quickly and can purchase exactly what is required, often putting valuable spending power into the local economy of a disaster area.

"Money crosses frontiers," says Mr Wyatt. "It can be used not only to buy goods, but to meet local expenses like paying for drivers. When we are given money, we are given speed and flexibility of response."

It is a theme which the British Red Cross is developing in its current fund-raising material. Money in boxes, says the slogan, helps disaster victims more than boxes of old blankets.

Alan Pike

Steady growth of links with credit cards

A spread of affinities

EARLY THIS month the North West Thames Regional Health Authority became the latest entrant to the "affinity" credit card market by launching a Visa card through Girobank.

The new card is the first to be linked to a health authority. By using it, holders of the card top up the funding of National Health Service hospitals in their region. Girobank hopes that in its first year this new card will raise £50,000.

Over the last few years the list of charity-linked credit cards has been growing steadily. An increasing number of smaller banks and large charities seem to believe that charities and credit cards are natural allies.

Consider the list of credit cards of this type already in the field. They include the Bank of Scotland's National Society for the Prevention of Cruelty to Children card; Girobank's Oxfam card; TSB's Save the Children Visa card, and Bank of Commerce and Credit's Green card.

Since then the scope of charity cards has widened. Last year Leeds Permanent launched a Visa card tied not to one but to three different charities – Mencap, the British Heart Foundation, and the Imperial Cancer Relief Fund. Card holders choose which of the three they want to help.

Midland Bank has also set up two card schemes serving a number of charities. Its Arts Card, issued on the Access/MasterCard branding, is linked with the Arts Council and card holders, in effect, sponsor the theatre, gallery, or opera house of their choice.

Another Midland Bank MasterCard, the Care Card, allows its holders to sponsor one or all of 12 charities, ranging from Age Concern to the Terrence Higgins Trust. The charity receives £5 when the card is first used, followed by 25p for each £100 spent.

Midland and TSB seem more interested in affinity cards than most of the other large banks, where scepticism about charity affinity cards prevails. Barclays, for instance, has launched an affinity card, a special MasterCard for RAC members, but it is just a club card and has no charitable purpose.

That has not deterred other banks from entering the field, particularly smaller banks on the look-out for new ways of finding customers.

Bank of Commerce and Credit International, for example, has been offering its environmentally aware customers a Greencard since late October. The card is a MasterCard and BCCI hopes that, through it, around £2m will be raised in the first three years for a special fund to be devoted to environmental causes.

People with money for charities are sales prospects for other financial services

BCCI gave £50,000 to the Fund when launching the card and is donating 30p per £100 spent to the charity. The card is the latest in a series.

Bank of Commerce and Credit International has issued 13 separate affinity cards linked to a variety of good causes. They include Care for the Wild, the Radio Society of Great Britain, and the Downs Syndrome Association.

How much do charities gain from these link-ups? Leeds Permanent says that in the first year of its card £1m was raised for three charities, though one charity – the Imperial Cancer Research Fund – did much better than the other two.

"ICRF actually received nearly half the total income for the charities," says Mr Ralph Pittman, a spokesman for Leeds Permanent. "No one in the market seems to be disputing that we have earned by far the most for charity so far."

Few other credit card issuers are willing to indicate how much the sponsoring charity has gained from the card. However, Girobank says that its Oxfam card has produced £116,000 since October last year.

The success of the Leeds Visa card is largely to be explained in terms of the high profile advertising campaign which accompanied its launch. Few other affinity cards have had so much publicity.

Most charities seem to be highly satisfied with the link-ups they have made. There are, however, a number of issues which they have to bear in mind. One is that their affinity card relationship will have to be exclusive. A charity has little prospect of issuing cards through several different banks, though NSPCC has a Bank of Scotland Visa card and is also one of the charities which benefits from Midland's Care Card.

Mr Keith Bradbrook, press manager of the NSPCC, says that the arrangement was amicably reached. "We feel we do get a good deal out of charity credit cards. The only drawback which most charities seem to feel is that it may take a long time to get the scheme off the ground."

However, charities have to remember that a bank's interests in a charity card scheme are almost certainly commercial and practical, rather than idealistic. The bank will be strongly interested, for example, in the charity's mailing and membership lists. Some decision has to be taken on how far these lists will be opened up to (or protected from) the attentions of the bank.

Almost by definition, people who have money to give to charities are good credit risks and are likely to be good sales prospects for other financial services. But they may take a dim view if their connection with a charity leads to them being exposed to a sales drive from a bank.

David Barchard

PRINCE'S YOUTH BUSINESS TRUST

Big donors targeted

ON HIS 40th birthday last November, the Prince of Wales launched a £40m appeal to advance the work of one of his charities, the Prince's Youth Business Trust.

Just over a year later £36m of the money has been raised, and the remaining £4m is likely to be in the bank before the end of 1989.

This outstanding fund-raising by the trust, which helps young people start their own businesses, is even more successful than it looks. The Government has agreed to match pound for pound all the private sector donations collected in the appeal, so it will finish up with getting on for £80m.

Charities no longer put out general appeals for money and sit around waiting to see what happens – fund-raising is far too competitive than that. Distinctive features of a particular charity have to be marketed with skill, and targeted at chosen potential donors.

The Prince's Youth Business Trust has raised its £36m within a year as a result of a deliberate decision to go for a limited number of big donations rather than a much larger number of small ones. Companies and wealthy individuals have been approached with requests to make contributions in this spirit, and most donations have been for substantial four-figure sums.

The trust has had a number of particular advantages to exploit in adopting this approach. Developing youth businesses is a flavour-of-the-80s, mainstream cause with which wealthy business people have no difficulty in identifying, and it is a subject with which companies are familiar and in which they are likely to be willing to invest their charitable funds.

Donors had the satisfaction of knowing that their contributions would double in value because of the Government's undertaking to match private sector money pound for pound. And the prestige of having an active royal president in the Prince of Wales, and an energetic, well-connected advisory council chairman in Sir Angus Ogilvy, can be worth millions to a charity, quite literally.

No all good causes directed at business people are as successful. The Children's Society hit on what looked like an original way of aiming an appeal at the financial community – it circulated prospectuses for what was described as the "best investment opportunity of 1989" to leading organisations in the City of London.

Investors had the opportunity, said the society, to invest in something "more important than the Channel Tunnel, the electricity industry or even water." The opportunity was to invest in the young people who will make up the next generation by helping to finance Britain's first safe house for young runaways.

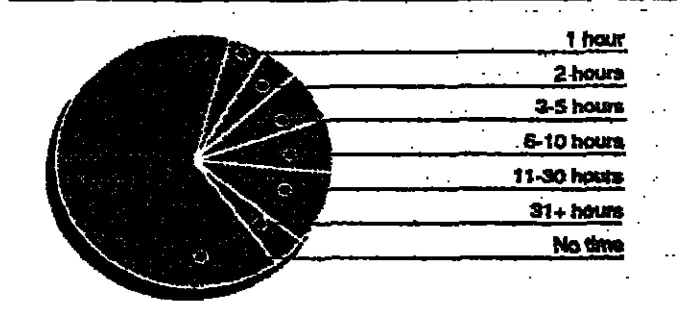
Nearly 100,000 young people leave home every year, often to escape physical, emotional or sexual abuse. Many end up on the streets, and get up involved in crime, drug-taking and prostitution. In 1985 the society established the safe house as a place where young runaways could be housed, counselled and returned home or to a place of care.

The society is spending £1m a year on its work with young runaways, and hoped that the novel investment appeal to the City would raise £300,000 to extend the work of the safe house. Interest has, however, been low and by the end of last month the appeal had raised just £54,427.

Alan Pike

The Prince of Wales

Hours spent per month helping charities in the UK



Source: Charities Aid Foundation

MARKETING

The new techniques

MARKETING, the buzz word of British industry over the last decade, is rippling through Britain's charitable sector.

For selling themselves to the public, in order to raise funds, is becoming increasingly central to the survival of many of Britain's charities.

It is a development that has gained momentum, according to Mr Stephen Lee, director of the Institute of Charity Fund Raising Managers, which has 900 individual members.

"The major structural change since World War Two has been that charities are no longer run on the basis of private endowment," says Mr Lee.

In the explosion of charitable activity in the 1960s and early 1970s, government and local government aid, as well as local authority payment of fees for services, were the important providers of funds for charities.

However, that area of support is in decline and so fund-raising from the public is becoming more important, says Mr Lee. Public fund-raising, he says, is still a comparatively small part of charities' total funds but the percentage will get bigger.

"Fund-raising," says Mr Lee, is becoming more and more central to charities' life and the techniques are becoming more sophisticated. The head of fund-raising in one of the larger charities might be responsible for delivering sums in excess of £20m a year, about the turnover of a small to medium-sized company."

Whereas 20 years ago public fund raising was perhaps synonymous with the rattle of the collecting box, today a host of sophisticated marketing techniques is being employed - with courses offered by the Institute to its professional fund-raising members – who are bound by codes of conduct.

Selling themselves to the public is now increasingly central to charities' survival

Techniques include:

- Big gift fund-raising appeals – a technique suitable for major capital projects whereby prominent individuals commit funds to the appeal and also encourage their friends and business associates to do likewise.
- Sponsorship and joint promotions such as the World Wide Fund for Nature.
- The pro-active development of legacy income.
- Corporate funding.
- Direct mail and the development of membership.
- The operation of events.
- Payroll giving – with employees' donations taken out of salaries at source.
- Lotteries.
- Advertising – with relaxation of rules this year enabling charities to advertise on television.
- Trading.

The Wishing Well Appeal, which sought to raise funds for rebuilding at Great Ormond Street Hospital for Sick Children is one of the best recent examples of the sophistication now employed in fund-raising.

"We had a whole marketing strategy," said Miss Janet Judd, public relations officer for the appeal. "The appeal was run as a commercial enterprise."

More than £54m – well ahead of its target – was raised by the appeal whose patrons were Prince Charles and Princess Diana.

The appeal was in three stages. Throughout, it drew on several panels made up of distinguished industrial, commercial and advertising men and women – such as Sir Kit McMahon, chairman of Midland Bank, Mr Robert Clarke, chief executive of United Biscuits and Lord Rockley, joint vice-chairman of Kleinwort Benson. These people, who gave their services free, gave practical help as the appeal rolled out.

First, in the early 1980s, was the planning stage, developed under the auspices of Marian Orford, a professional fund-raiser. Ms Orford, with a small team, researched the whole area of charitable giving – from how much certain companies gave to what wealthy individuals might give.

A key factor was that the public could clearly identify the cause: sick children

This meant that when the appeal went into its second stage – the private appeal – fund raisers did not approach a company for £5,000, for example, and then find out later that it normally gave £10,000. Big gift appeals were made at this stage with panel members assisting through their own personal and professional contacts.

The third stage was the public appeal with activity including joint promotions and advertising in the cinema and on posters – with sites donated by poster site companies and the campaign itself sponsored by Midland Bank.

Major special events included Michael Jackson, the singer, donating some of the proceeds from a concert for the appeal

Why did so many people support the appeal? Miss Judd says: "Partly because we had done so much work in the planning stage – we had contacted so many people and gone on and on to them about what were were doing. Partly also because of the cause – sick children with Great Ormond Street Hospital being a place of last resort."

While the Wishing Well appeal was obviously an emotional appeal that quickly attracted a very distinguished cast of helpers, Mr Lee of the Institute of Charity Fund Raising Managers, says that many of the techniques it employed could be utilised by even the smallest charity.

A key factor in Great Ormond Street's success, he says, was that the public could clearly identify the cause – a phenomenon which should be given priority by all charities.

"Fund-raising challenges charities to be much clearer about what they are and why they exist," says Mr Lee.

Lisa Wood

Penny Duckham looks at US corporate giving

Generous, but less so

THE RISE in US corporate charitable giving in the early Reagan years was remarkable, and yet little remarked. Contributions tripled from a total of $1.2bn in 1975 to $4.5bn in 1985. According to figures compiled jointly by the Conference Board and the Council for Aid to Education in their annual surveys of corporate giving, total cash contributions soared from less than 0.9 per cent of pre-tax profits in 1979 to an all-time record high of almost 2 per cent in 1985.

Not included in these figures are the in-kind donations that many companies make to non-profit organisations, from the loan of company personnel or the free use of printing and computer to interest-free loans and deposits.

But while US corporate giving remains at a high level by international comparison, the boom years now seem over. From the peak in 1985, contributions have flattened off. In 1987, despite a 12 per cent rise in corporate pre-tax income, there was no corresponding increase in giving. Indeed, in real terms, total corporate giving fell by about 4 per cent in 1987. The immediate prospect seems to be cautious and steady growth at best.

At the same time, fuelled by the recent rapid upsurge in giving, expectations have grown about the business community's ability and willingness to take responsibility – or at least to pay for – a whole series of major national social problems, ranging from illiteracy to homelessness. While corporate giving in dollar terms accounts only for some 5 per cent of all private giving – with individuals contributing 82 per cent – there is an increasing tendency to look to business to solve seemingly intractable social problems.

In principle, the business community appears willing to assume a major role – in part, out of sheer self-interest. Education remains the top recipient of corporate dollars, attracting over 43 per cent of all corporate donations in 1987. Business leaders make no bones about the fact that this is directly related to their concerns about future workforce recruitment, and the US's ability to compete in world markets by the year 2000.

As Mr William Heron, Citicorp's Group executive for US consumer banking, explains, Citicorp is funding a large-scale scholarship programme because "in global economy, American business will pass or fail in the classroom."

In part though, business involvement stems from a deep-rooted sense of corporate social responsibility and an active commitment to the community – both in terms of dollars and volunteered time – that characterises American corporate life. Companies, big and small, typically encourage their employees from the most senior executive officer down to take an active part in local volunteer initiatives.

Many companies have copied a scheme that IBM started in 1971, to give their employees paid leave for up to a year to work for non-profit community organisations. An expanding part of many companies' contributions programmes goes in employee-matching gifts: over $108m in 1987 to educational programmes alone.

Within the education area, partnerships between local businesses and public elementary and secondary schools have mushroomed: from 42,000 in 1983-84 to 140,800 now. Partnerships generally involve businesses in providing special scholarships or incentives for students and sometimes teachers, or the use of corporate facilities and summer jobs.

This uniquely American approach is certainly recognised – and admired – by foreign observers. In Canada, for example, a major public/private campaign is currently under way to boost charitable philanthropy. Particular emphasis is being put on the fact that individual Americans are three times more generous than Canadians, and that US companies give four times the amount that Canadian companies give as a percentage of pre-tax profit.

There is an impact, too, on US-based foreign concerns. During the bitter Grand Metropolitan takeover battle for the Minneapolis-based Pillsbury company last year, British and US standards came under scrutiny, with comparisons made of the two companies' records for charitable activities. Much was made of Pillsbury's long-standing reputation as a generous local donor, with the implication that, by contrast, the British conglomerate would slash the company's local community programme.

The Japanese suffer from a particularly poor reputation in this respect. In a recent speech, Mr Sadahei Kusumoto, president of the Minolta Corporation, warned his Japanese colleagues to increase their corporate charitable activity in America, because "failure to play an active part in the community will brand (Japanese) companies as irresponsible outsiders and dim their prospects for the future."

Significantly, some of the major Japanese companies in the US, such Hitachi and Matsushita, have now started to emulate their US counterparts and are setting up their own corporate foundations to channel donations in the US.

Corporate foundations are certainly an increasingly popular vehicle for US corporate giving – six out of 10 companies surveyed by the Conference Board in 1987 had their own foundations, compared with four out of 10 in 1977. But an elite group of corporate foundations dominates; according to the Foundation Center, 857 corporate foundations accounted for 96 per cent of the assets, and for nearly 99 per cent of all the dollars paid out by corporate foundations.

While such foundations are totally distinct from direct corporate giving programmes, they may well be closely co-ordinated and even administered by the same staff – though they are legally separate, and subject to different regulations and reporting requirements. The peak growth in corporate foundations dates from 1975 to 1979, when parent company contributions rose by $330m or nearly 192 per cent. Since then, despite the growth in numbers, donations from such foundations have been declining.

In a recent speech on volunteerism, billed as a major policy statement, President Bush picked up an old theme from the early Reagan era: the need for the community at large – business, individuals, state governments and civic groups – to take on greater responsibilities for a wide range of social problems, rather than to depend on the Federal Government for funding or services. Launching the Points of Light Initiative, to be backed by a $25m annual budget to be agreed by Congress, with matching funds from the private sector, the President made clear that its impact would depend entirely on volunteer efforts, both in terms of dollars and manpower.

It remains to be seen whether the spirit and enthusiasm – and the economic conditions – that led to the boom of corporate giving in the early Reagan years can be revived.

PAYROLL GIVING

Workers slow on uptake

TWO YEARS ago, the Chancellor of the Exchequer provided charities with what should have been a godsend: income tax relief on donations deducted directly from employees' salaries.

The Government expected that this would encourage people to give money to charity on a regular basis and boost total donations. Yet payroll giving has spread far less rapidly among the working population than originally hoped.

Charities depend very heavily on individual donations: these are the single most important source of income for voluntary groups. According to the Charity Household Survey, it is estimated that between £3bn and £4.5bn was donated to charity in 1988-89. The median monthly donation is about £2. But only 9 per cent of charitable donations are made through payroll deduction schemes and covenants.

Payroll giving, sometimes known as Give-As-You-Earn (GAYE), is simple for donors to use. People do not have to fumble in their pockets for loose change when approached by a tin-rattling charity representative in the street. Instead, they fill in a form specifying which charity or charities they would like to give money to and how much they would like to contribute each month.

Thereafter, the sum is docked from the person's salary each month by the employer, sent to a charity agency along with other donors' contributions, and then passed on to the appropriate charities. Several charity agencies handle donations, exacting a fee of up to 5 per cent to cover the administration.

The money is deducted from the donor's gross salary and received tax-free by the charity: thus, if someone donates £120 a year to a charity, that is deducted from the gross salary which means that a basic rate taxpayer would "lose" only £90 from his net income.

A recent survey by the Charities Aid Foundation (CAF), the largest agency collecting through a payroll scheme, shows that those who use GAYE like it as a means of payment: 68 per cent of payroll donors said they thought that deduction from pay was the best way to make donations, while 16 per cent thought covenants were the best method. By comparison, among non-payroll donors, 58 per cent thought cash was the best way to donate money, while 13 per cent preferred covenants.

CAF's market research also shows that of those people who use a payroll giving scheme, 98 per cent thought it an "excellent or good" method of giving to charity. Mr Michael Brophy, director of CAF, uses this finding to squash complaints by charities who argue that payroll giving is "complicated and user unfriendly." Users say they like the system because it is tax-efficient, easy to use, painless, regular, convenient – and because the administration is done by somebody else!

The research shows that 11 per cent of those who donate through GAYE are at the top end of the range, contributing £31-£40 (ie, close to the £480 threshold); half donate £5 to £10, and 10 per cent give £1-£2.

Given the advantages of payroll giving schemes, many charities hoped that they would prove a runaway success. But in fact, payroll giving is growing rather slowly.

Promoting the scheme is "a bit like trench warfare"

Mr Brophy points out that GAYE is "quite an important part of the furniture" among charity households alongside traditional methods such as sponsored events, door-to-door collection and charity catalogues, and the newer schemes such as affinity cards (these are ordinary credit cards which donate a small percentage of the amount spent by the cardholder to a particular charity or arts organisation).

However, Mr Brophy admits that promoting payroll giving is "a bit like trench warfare" and that uptake has been slow. Barnardo's, which as well as being a charity also acts as an agency and distributes the money from payroll collection to any requested charity, says only 12 per cent of employees take up the scheme.

In the 1988-89 tax year, payroll agencies received a total of £3.94m, with CAF alone collecting £3.55m. As the largest agency CAF has netted nearly 100,000 employees at over 2,000 different employers since the scheme started in April 1987, distributing the proceeds to 4,750 charities and branches.

The smaller agencies, some of which operate only for one employer, collected between £1,332 (Bristar Foundation, with one employer contracted) and £206,856 (Barnardo's).

The problem is that charities and employers seem in a muddle about how to encourage more people to participate in payroll giving schemes. "The second year of payroll deduction could be characterised as the year when charities asked employers, and employers asked charities to take a lead. The outcome was that charities were disappointed that they failed to gain regular access to workplaces, and employers were disappointed that charities failed to work together to maximise the promotional opportunities which they made available" says Mr David Wickert, director of GAYE at CAF in the report "Charity Trends".

Mr Brophy is highly critical of charities for not making enough of GAYE. "The charities made half-hearted efforts to collaborate, but found the difficulties of getting into the workplace sufficiently offputting that they gave up. Few charities are now pushing the scheme effectively; many somehow blame the Government for not promoting it."

In other words, charities need to adopt a more professional approach to drumming up supporters, for example by targeting them with mailshots and by approaching them face-to-face in the workplace. It is much easier for a charity to sign up supporters if canvassers are allowed into the office to give talks and promote their cause with the consent of the management.

CAF would like to see GAYE schemes extended to the self-employed so that well-paid professionals could contribute regularly. But probably a more effective way to draw in money would be to raise or abolish the limit of £480 a year that qualifies for tax relief. The charities have asked for the figure to be raised to at least £1,000 a year to help attract big earners, but so far the Government has shown no signs of obliging.

Sara Webb

FUND-RAISING

An NHS 'secret weapon'

A "controversial practice" of using public money for fund-raising appeals in the National Health Service is growing rapidly, said a report last week by the Directory of Social Change and the National Council for Voluntary Organisations, writes Alan Pike.

The report highlights an issue causing mounting concern to charity organisers – the emergence of hospitals and other state-financed institutions as competitors for public charitable donations.

Health authorities and NHS hospitals, says the report, have a combined charitable income of about £170m and assets of nearly £600m. Except in some teaching hospitals, health authority members are the charitable trustees for this money.

The report says it is inappropriate for a health authority to act as a fund-raising charity, because of the danger of a conflict of interest in the dual roles of health authority members.

Until 1980 hospitals were not allowed to undertake fund-raising in their own names. If they did so, it had to be through a league of friends or independent appeal charity. This changed when the 1980 Health Services Act allowed health authorities to organise their own appeals and use exchequer funds – repayable from the appeal proceeds – to cover the launch costs.

"Since then, there have been an increasing number of well-organised and often professionally-managed charitable appeals," says the report. "At first, these were usually for 'extra' or unusual facilities argued to be outside normal NHS provision, such as scanners or hydrotherapy pools. More and more, we are seeing appeals run simply for the capital needs or even the ordinary running costs of hospitals."

The implications of recent growth in charitable appeals in the health service are, alarming, the report argues. "And if it is right for taxation to pay for charitable appeals by hospitals, will it also be introduced to pay for appeals by every school, every public library, indeed every public institution in the land?

"Will they be empowered, as health authorities now are, to buy advertising time on television with public money for charitable appeals? And how can independent charities hope to compete with the power of the public purse?"

If a sound basis for fund-raising in statutory bodies which could benefit from a charitable input is to be established, says the report, Parliament should consider the issue when it debates the reorganisation of the NHS and the new Bill on charities regulation.

Charity and the National Health, Directory of Social Change Radius Works, Back Lane, London NW3 1HL, £20.

Central Government Grants (in £000s) to Voluntary Organisations

Department	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Agricult, Fisheries & Food	93	91	99	103	118	172	188
Defence	2,637	2,361	2,644	3,285	3,544	4,826	5,297
Education & Science	12,381	11,175	14,318	16,583	18,069	16,230	7,207
Employment	23,267	26,380	27,720	29,180	30,318	33,294	40,290
Energy	91	134	91	344	865	1,118	1,067
Envirnmt – direct grants	763	976	1,220	2,178	2,586	3,612	6,180
Envirnmt – Urban Programme	27,000	37,500	46,500	54,000	76,300	76,011	66,644
Foreign & Commonwlth Office	584	-	748	813	823	881	1,203
Health & Social Security	13,775	15,462	23,123	30,068	32,046	35,076	36,572
Home Office	15,396	15,559	16,890	17,068	18,300	19,541	21,946
Industry	479	660	-	-	-	-	-
Lord Chancellor's Deptment	529	583	604	869	692	727	712
N Ireland Deptments	20,398	9,480	12,091	13,711	16,801	14,975	14,264
Overseas Development Admin	8,393	9,030	10,772	24,027	31,233	26,823	42,476
Scottish Off - direct grants	5,515	6,500	6,824	7,413	8,247	8,970	9,790
Scottish Off - Urban Programme	3,189	4,897	6,750	10,200	11,700	16,600	20,400
Trade & Industry	4,965	5,600	6,221	7,370	8,063	8,689	9,069
Transport	451	440	509	564	605	636	671
Welsh Office - direct grants	2,448	3,280	3,821	4,615	5,094	8,468	5,530
Welsh Office – Urban Programme	690	862	1,325	2,200	2,375	2,850	3,430
Totals	140,984	150,978	182,270	224,411	267,777	279,498	292,916

Source: Charities Aid Foundation

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Merlin Jupiter Unit Tst Mgrs Ltd (0905)F
197 Knightsbridge, London SW7 1RB 01-581 3020

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Cap	5	113.5	115.9	123.2	0.82	40702
Income	5	97.43	99.27	105.6	4.01	40703
Resources & General	5	127.8	130.1	138.4	2.33	40704
Special Sits	5	32.88	34.00	36.16	4.08	40705
International	5	59.72	61.04	64.93	1.81	40954
Ecology	5	61.10	62.58	66.57	1.70	46467

Metropolitan Unit Trust Mngrs Ltd (1000)F
3 Darkes Lane, Potters Bar EN6 1AJ. 0707 45184

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Eurogrowth Plus	6	67.98	68.79	73.18	0.65	46642
Global Growth	5¼	47.63	48.00	51.06	0.49	40960
Global Income Acc.	5¼	61.21	62.14xd	66.11	3.03	40957
Do Income	5¼	57.11	57.99xd	61.69	3.24	40958
Sunrise Accum	6	69.37	70.69xd	75.20	0.00	46643
UK Growth Acc	5¼	59.96	59.96xd	60.60	1.65	40957
UK Income Acc.	5¼	66.99	68.57	72.95	4.11	40956
Do Income	5¼	62.39	63.86	67.94	4.42	40955

Midland Unit Trusts Ltd (1200)F
192 Eyre Street, Sheffield, S1 3RD 0742 529888

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
British Tst	6	61.91	62.34	66.67	2.92	46479
(Accum Units)	6	62.92	63.36	67.76	2.92	46480
Capital	6	116.4	116.4	124.5	2.18	40961
(Accum Units)	6	168.3	168.3	180.0	2.18	40962
European Growth	6	152.6	152.6xd	162.5	0.70	40965
(Accum Units)	6	188.1	188.1	200.4	0.70	40966
Extra High Inc	6	69.48	70.74	75.66	7.25	40967
(Accum Units)	6	96.45	98.18	105.0	7.25	40968
Gilt & Fxd Int	4	49.70	49.74xd	51.95	8.89	40969
(Accum Units)	4	103.4	103.5	108.1	8.89	40970
High Yield	6	202.5	205.9xd	220.2	5.77	40971
(Accum Units)	6	399.4	406.2	434.4	5.77	40972
Income	6	246.0	246.0	263.1	4.71	40973
(Accum Units)	6	444.7	444.7	475.6	4.71	40974
Intl High St UT	6	60.30	60.30	64.49	1.38	40975
(Accum Units)	6	62.16	62.16	66.48	1.38	40976
Japan Growth	6	450.3	450.3	482.1	0.00	40977
(Accum Units)	6	473.3	473.3	506.7	0.00	40978
Mandarin Tst	6	66.18	66.23	70.84	0.49	46363
(Accum Units)	6	66.73	66.78	71.42	0.49	46463
Magd P'folio Acc	6	75.29	75.98	81.26	2.25	40979
Money Market UT	4	49.67	49.67xd	51.66	12.94	46402
(Accum Units)	4	55.09	55.09	57.30	12.94	—
North American	6	132.1	132.1xd	141.3	0.00	40980
(Accum Units)	6	163.2	163.2	174.5	0.00	40981
Smaller Cos	6	152.5	152.5	163.1	2.17	40982
(Accum Units)	6	169.7	169.7	181.5	2.17	40983
Meridian Income	6	112.1	112.1	119.9	3.96	46224
(Accum Units)	6	117.2	117.2	125.3	3.96	46627
Meridian Growth	6	123.8	124.7	133.4	2.13	46225
Midland Personal Pension Unit Trust*						
British	6	62.66	63.42	67.47	2.94	46496
European Growth	6	69.72	69.82	74.28	0.70	46497
Gilt & Fixed	6	51.23	51.31	54.59	8.89	46498
Income	6	56.23	57.17	60.82	4.66	46499
Japan Growth	6	65.96	66.38	70.62	0.00	46500
Managed	6	59.37	60.24	64.08	2.25	46504
Money Market	6	55.54	55.54	58.88	12.98	46501
North American	6	61.78	62.98	67.00	0.00	46503
Midland FSAVCS Unit Trust*						
British	6	58.18	58.88	62.64	2.94	46912
European Growth	6	66.72	66.82	71.08	0.70	46611

† Dealing Day: Wed. *Dealing day: Thurs.

Pearl Unit Trusts Ltd (1000)H
PO Box 500, Thorpe Wood, Peterborough PE3 6SD
Dealing: 0800 626577. Enquiries: 0733 67767

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth	5	116.3	118.7	124.9	2.94	41121
(Accum Units)	5	185.3	189.3	199.2	2.94	41122
Income	6	178.7	182.1	193.7	3.94	41123
Equity	6	179.8	182.9xd	194.5	2.65	41124
(Accum Units)	6	339.1	345.0	366.9	2.65	41125
Intl Equity	6	184.7	186.9	198.8	1.53	41126
(Accum Units)	6	194.1	196.5	209.0	1.53	41127
UK Income	6	48.94	49.79	52.96	4.01	47028
UK Intl 25	6	47.02	47.58	50.62	2.82	47584

Pembroke Administration Ltd (1700)F
18-19 Sandland St, London WC1R 4PZ. 01-430 0556

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Pembroke Accum	5	81.109	84.29	89.34	2.43	41128

Perpetual Unit Tst Mngmt (1200)F
48 Hart Street, Henley on Thames 0491 576868

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
International Gwth	5¼	376.02	376.02	402.17	1.44	41129
Income	5	241.52	241.52	258.32	4.95	41130
W'wide Recovery	5¼	220.21	220.50	235.85	1.65	41131
American Growth	5¼	97.28	97.35	104.12	1.35	41132
Intl Emerging Cos	5¼	99.92	100.04	107.00	0.92	41133
Far East Gwth	5¼	145.64	146.33	156.50	2.00	41134
European Gwth	5¼	94.52	94.90	101.50	1.10	41135
UK Growth	5¼	45.73	45.73	48.91	2.66	41136
High Income	5¼	56.60	57.08	61.05	6.60	41137
Japanese Gwth	5¼	158.01	158.01	168.40	0.01	46329
PEP Gwth & Inc ◆	5¼	53.80	53.80	57.24	3.50	47790

Phillips & Drew Unit Managers Ltd
14 Finsbury Square, London EC2A 1PD 01-628 6070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Charities Fxd Int		96.64	96.64	96.77	10.3	46499
Charities Ind Lkd		103.5	103.5	103.6	2.5	46491
UK Exempt		105.0	105.0	107.3	5.00	46494
Charities Intl		119.9	119.9	121.6	2.4	46498

Prolific Unit Tst Mngrs Ltd (1200)H
222 Bishopsgate, London EC2 01-247 7544/7

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Income	5	67.29	67.85	72.34	3.40	41141
Conv & Gilt	5	120.5	120.5xd	129.0	6.89	41142
Euro Gwth & Inc	5	57.49	58.53	62.94	1.53	41143
Extra Income	5	132.6	134.4	143.5	4.89	41144
Far East ♥	5	277.9	278.1	296.5	0.01	41145
High Income	5	86.43	86.43xd	92.24	4.84	41146
International	5	163.7	164.5	175.0	0.36	41147
Nth American	5	163.5	165.5	176.9	0.01	41148
Pref & Fxd Int	5	44.71	44.71xd	47.81	8.90	46068
Special Sits	5	109.5	110.8xd	118.6	1.53	41149
Technology	5	145.9	145.9xd	155.7	0.13	41150

Providence Capital Fd Mgrs Ltd (1000)H
30 Uxbridge Road, London W12 8PG 01-749 9111

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
European Acc	5	140.1	140.1xd	150.0	0.52	41156
European Inc	5	134.6	134.6xd	144.2	0.52	41155
Japan Acc	5	132.6	132.6	142.1	0.00	41160
Japan Inc	5	132.3	132.3	141.8	0.00	41159
Nth American Acc	5	69.46	69.46	73.90	1.40	41158
Nth American Inc	5	66.57	66.57	70.83	1.40	41157
UK Equity Acc	5	86.12	86.12xd	92.98	2.97	41154
UK Equity Inc	5	77.37	77.37xd	83.15	2.97	41153
Worldwide Acc	5	116.3	116.3	124.2	0.31	41152
Worldwide Inc	5	111.4	111.4	119.0	0.31	41151
UK High Inc Eq Acc	5	82.31	82.31	88.75	5.79	41162
UK High Inc Eq Inc	5	72.42	72.42	78.09	5.79	41161
Hong Kong Acc	5	47.02	47.02	50.16	2.34	41164
Hong Kong Inc	5	44.88	44.88	47.88	2.34	41163
Swiss Equities Acc	5	41.11	41.11	44.02	1.04	41166
Swiss Equities Inc	5	40.75	40.75	43.63	1.04	41165
W'wide Bond Acc	5	56.95	56.95	60.08	5.65	41168
W'wide Bond Inc	5	54.18	54.18	57.15	5.65	41167
Emerging Asia Acc	5	100.4	100.4xd	107.5	0.00	46664
Emerging Asia Inc	5	100.4	100.4xd	107.5	0.00	46665
UK Money Mkt Acc	0	51.35	51.35	51.35	14.00	47494
UK Money Mkt Inc	0	51.35	51.35	51.35	14.00	47493
Thailand Inc	5	54.04	54.04	57.80	0.53	47791
Thailand Acc	5	54.04	54.04	57.80	0.53	47792

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ◆ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	Citycode
Wardley Unit Tst Mngrs Ltd (0900)H						
3 Harbour Exchange, London, E14 9GL						01-455 5055
American ♦	5¼	74.34	74.34	79.50	1.4	41574
Intl Growth ♦	5¼	86.64	86.64	92.66	1.0	41577
Income ♦	5¼	129.0	129.0	137.9	4.7	41576
Japan Growth ♦	5¼	256.8	256.8	274.6	0.1	41577
Pacific Perf ♦	5¼	170.3	170.3	182.1	0.1	41578
Small Co's ♦	5¼	128.2	128.2	137.1	1.4	41579
Technology	5¼	35.60	35.60xd	38.07	0.1	41580
Australia	5¼	65.74	65.74	70.31	3.3	41581
UK Trust ♦	5¼	174.8	174.8xd	186.9	2.6	41582
European Growth ♦	5¼	76.90	76.90	82.24	0.1	41583
Hong Kong ♦	5¼	34.45	34.45	36.84	1.8	41584
Intl Income	5¼	22.42	22.42	23.97	7.9	41585
5 yen & Wrnts	5¼	38.56	38.56	41.24	0.1	41586
British Warrant ♦	5¼	26.35	26.35	28.18	1.8	41587
Japan Smllr Cos ♦	5¼	31.26	31.26	33.43	0.1	41595
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh						031-225 1551
Australasian Gold	6	16.54	16.54	17.59	0.00	41588
Pacific Basin	6	30.99	30.99	32.96	0.60	41589
Can Balncd Gwth ♦	6	49.11	49.11	52.24	0.64	41590
Global Mkt ♦	4	0.9751	0.9751	1.0157	7.61	41591
Penny Share	6	28.32	28.32	30.12	0.50	41592
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1						01-407 4404
Wellington Income	5½	139.1	140.6	149.6	4.84	41593
Wellington Growth	5½	229.5	231.8	246.6	0.39	41594
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW						0202 299432
Wessex UK Gwth	4½	110.5	114.0	118.6	4.12	41595
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT						01-606 3132
Challenger ♦ F	2½	62.41	62.41xd	63.98	0.00	41596
Short Dat Gilt ♦ F	1¼	82.26	82.26	83.57	6.44	41597
U.S. Govmt Bond ♦ F	1¼	0.5788	.5788xd	.5864	0.00	41598
Willbro Financial Services Ltd (0905)F						
PO Box 515, 6 Broadgate, London EC2						01-588 7511
Ant Friars W'wide	5	202.7	206.2	219.3	2.41	40677
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Growth & Equity	5	56.31	59.45	63.24	7.45	41599
European	5	80.29	80.59	85.73	0.10	46305
Far Eastern	5	63.70	73.65	78.35	0.62	46304

	Bid Price	Offer Price	Yield Gross	Citycode
AEtna Life Insurance Co Ltd—Contd.				
Pension Funds (Accumulation Units)				
Squirrel	15.75	16.58	—	41670
Bear	17.09	17.99	—	41671
Owl	22.79	23.99	—	41672
Bull	20.74	21.84	—	41673
Stag	20.18	21.25	—	41674
Gilt Edged	13.76		—	41675
Deposit	13.56		—	41676
North American	11.20	11.79	—	41677
European	11.74	12.36	—	41678
Property	11.86	12.49	—	41679
Index-Linked	11.74	12.36	—	41680
Far Eastern	14.19	14.99	—	41681
UK Equity	15.76	16.59	—	41682
Fixed Interest	12.00	12.64	—	41683
Gilt Edged (89)	9.95	10.46	—	47024
1982 Series				
Managed	296.71	312.33	—	41684
Pre 1982 Series				
Aetna Life				
3 Way	697.66	697.66	—	41686
Equity Pensions	220.41	220.41	—	41687
Aetna Pensions Ltd				
3-Way Managed	641.63	641.63	—	41688
Exempt Approved				
Mixed Managed	220.36	224.86	—	41689
Gilt Edged	13.74		—	41690
Albany Life Assurance Co Ltd				
3 Darkes Lane, Potters Bar EN6 1AJ				0707 42311
Life Funds				
Brit Blue Chip Fd Accz	145.4	153.0	—	41691
Equity Fd Accz	1065.5	1121.5	—	41692
European Fd Accz	281.2	295.9	—	41693
Intl Fxd Int Fd Accz	214.1	225.3	—	41698
Fixed Int Accz	345.7	363.8	—	41694
Gtd Money Fd Accz	244.1	256.9	—	41695
High Income Fd Accz	120.6	126.9	—	41696
Intl Man Fd Accz	441.0	464.2	—	41697
Japan Fd Accz	514.0	541.0	—	41699
UK Smlr Co's Fd Accz	111.5	117.4	—	41704
European Metro	124.7	131.2	—	47025
Global Metro	110.3	116.1	—	46834
Sunrise Metro	127.9	134.6	—	47026
UK Metro	110.3	116.1	—	46837
Nth American Fd Accz	222.4	234.0	—	41700

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OTHER UK UNIT TRUSTS

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INSURANCES

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Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Premium Life Assurance Co Ltd				
37-39, Perrymount Road Haywards Heath 0444 458721				
American	122.0	129.0	–	43285
Building Soc. Fd	178.0	188.0	–	43286
Balanced	285.0	300.0	–	43287
European	201.0	212.0	–	43289
GT Managed	189.0	199.0	–	43290
Gartmore Mngd	129.0	136.0	–	43291
German	164.0	173.0	–	43292
Gilt	172.0	182.0	–	43293
Global	49.0	52.0	–	46834
High Inc	106.0	112.0	–	43294
International Equity	202.0	213.0	–	43295
Japan	293.0	309.0	–	43296
Managed	58.0	62.0	–	43297
Property	309.0	326.0	–	43298
R. W. Imperial Gold	147.0	155.0	–	43299
UK Equity	316.0	333.0	–	43300
Pension Funds				
American	151.0	159.0	–	43301
Building Soc. Fd	182.0	192.0	–	43302
Balanced	224.0	236.0	–	43303
European	202.0	213.0	–	43305
German	145.0	153.0	–	43308
Gilt	153.0	162.0	–	43309
International Equity	144.0	152.0	–	43310
Japan	148.0	156.0	–	43311
Managed	64.0	68.0	–	43312
Property	238.0	251.0	–	43313
UK Equity	305.0	322.0	–	43314
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton. 0703 232323				
Pensions Managed Fund	95.50	100.93	–	42263
Pensions Cash Fund	82.42	86.75	–	42264
Prolific Life & Pensions Ltd				
Stramongate, Kendal, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Gwth Mngd	614.8	647.9	–	43315
Adventurous Mngd	135.9	143.3	–	46402
Secure Mngd	110.0	116.0	–	46403
Cash Fd	242.9	256.0	–	43316
Property Fund	300.0	316.2	–	43317

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	134	9.98	19.6	25 Jul 25 Jan	1311
1,400	Exch 11pc 1990‡‡	99	14.12	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99	14.52	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	96	11.97	2.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	97	13.80	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	96	13.90	9.6	16 Jul 16 Jan	4680
1,887	Treas 10pc Cv 1990	96	13.93	18.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	92	10.97	16.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	98	13.58	4.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	92½	12.06	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	90	10.64	9.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	95	13.06	6.12	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	97	12.74	18.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92	12.65	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	100	12.38	15.6	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	95	12.35	17.7	21 Aug 21 Feb	1283
1,400	Treas. 9pc 1992 ‡‡	91	12.32	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	96	12.16	2.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84	10.35	6.11	11 Dec 11 Jun	1328
1,350	Exch 12¼pc '92	100	12.13	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	103	11.97	31.8	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	90¾	11.82	12.7	18 Aug 18 Feb	—
1,850	Treas 10pc 1993‡‡	95½	11.64	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	102	11.69	8.12	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	85	10.73	9.8	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	106	11.53	17.10	23 May 23 Nov	1304
1,050	Treas. 8½pc 1994	90	11.55	27.6	3 Aug 3 Feb	—
600	Treas 14½pc 1994‡‡	110	11.36	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	106	11.51	20.9	27 Oct 27 Apr	1267
1,400	Treas 10pc Ln. 1994‡‡	95	11.34	2.11	9 Dec 9 Jun	1284
1,550	Exch. 12½pc 1994	103	11.50	17.7	22 Feb 22 Aug	1263
1,600	Treas 9pc 1994‡‡	91	11.38	11.10	17 May 17 Nov	1345

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,350	Treas 12pc 1995	102	11.41	19.6	25 Jul 25 Jan	1294
229	Exch 3pc Gas 90-95	75	8.73	25.9	1 Nov 1 May	1271
2,100	Exch. 10¼pc 1995	95	11.31	14.6	21 Jan 21 Jul	1254
1,000	Treas 12¾pc 1995‡‡	106	11.18	9.10	15 May 15 Nov	1298
900	Treas. 14pc '96	111	11.36	15.6	22 Jul 22 Jan	1305
750	Treas. 9pc 1992-96‡‡	91	11.02	9.8	15 Sep 15 Mar	1344
1,350	Treas 15¼pc 1996‡‡	118	11.19	27.9	3 Nov 3 May	1309
800	Exch 13¼pc 1996‡‡	109	11.16	9.10	15 Nov 15 May	1268
1,109	Conversion 10pc 1996	95	11.04	9.10	15 May 15 Nov	1240
1,500	Treas 13¼pc 1997‡‡	110	11.10	15.6	22 Jul 22 Jan	1302
3,100	Exch 10½pc 1997	97½	11.01	17.7	21 Aug 21 Feb	1253
3,750	Treas 8¾pc 1997‡‡	89½	10.79	24.8	1 Mar 1 Sep	1341
1,000	Exch 15pc 1997	119	11.23	20.9	27 Apr 27 Oct	1269
2,850	Exch. 9¾pc 1998	93	10.90	12.6	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	79	10.40	25.9	1 Nov 1 May	1331
1,100	Treas. 15½pc '98‡‡	124	11.03	24.8	30 Mar 30 Sep	1308
2,500	Exch. 12pc 1998	105	10.96	16.10	20 May 20 Nov	1259
1,250	Treas 9½pc 1999‡‡	95	10.60	8.6	15 Jul 15 Jan	1347
2,900	Exch. 12¼pc 1999	107	10.93	21.8	26 Sep 26 Mar	1264
1,252	Treas. 10½pc 1999	98	10.79	13.10	19 Nov 19 May	1288
1,548	Conversion 10¼pc 1999	96	10.78	16.10	22 May 22 Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	87	10.52	21.6	28 Jan 28 Jul	1338
1,554	Conversion 9pc 2000‡‡	90	10.53	28.7	3 Sep 3 Mar	1244
1,817	Treas. 13pc 2000	119	10.92	8.12	14 Jan 14 Jul	1299
1,050	Treas 10pc 2001	96	10.58	20.7	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98-01	115	11.15	16.10	22 Nov 22 May	1306
802	Conversion 9¾pc 2001	94	10.54	4.7	10 Feb 10 Aug	1248
1,600	Exch. 12pc '99-02	105	11.01	15.6	22 Jul 22 Jan	1261
716	Conversion 10pc 2002	96	10.47	4.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	94	10.43	21.7	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	90	10.37	13.10	19 May 19 Nov	1272
1,800	Treas. 13¾pc 2000-03	117	10.96	19.6	25 Jan 25 Jul	1303
1,000	Treas 10pc 2003	97	10.30	2.8	8 Mar 8 Sep	1281
1,900	Treas. 11½pc 2001-04	104	10.74	14.8	19 Sep 19 Mar	1290
900	Treas. 10pc 2004	98	10.25	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99-04	54	9.07	8.12	14 Jan 14 Jul	1274
1,362	Conversion 9½pc 2004	94	10.19	18.9	25 Apr 25 Oct	1246

BRITISH FUNDS—Contd

Over Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,881	Conversion 9½pc 2005	94	10.15	11.9	18 Oct 18 Apr	1247
1,050	Exch.10½pc 2005	102	10.19	14.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003-05	115	10.35	16.10	21 May 21 Nov	1295
1,800	Treas. 8pc 2002-06‡‡	85	10.08	10.11	5 Apr 5 Oct	1334
3,150	Treas. 11¾pc 2003-07	109	10.34	15.6	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	88	9.93	9.6	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04-08	123	10.29	21.8	26 Sep 26 Mar	1301
—	Treas. 9pc 2008 ‡‡	92	9.86	6.9	13 Apr 13 Oct	1343
721	Treas. 9pc 2008 B	92	9.86			—
1,000	Treas 8pc 2009	84	9.81	21.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	93¼	9.78	6.12	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	62	9.60	4.8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012-15‡‡	81	9.73	19.6	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13-'17	120xd	9.80	6.11	12 Jun 12 Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	40	—	26.6	1 Feb 1 Aug	1299
1,909	War Loan 3½pc‡‡	35	—	25.10	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft.	61	—	25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft.	32	—	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	25	—	1.12	5 Ja Ap Jul O	1238
475	Treas. 2½pc	25	—	25.8	1 Apr 1 Oct	1315

Index-Linked

Amount £m	Stock (b)	Price £	**	Last xd	Interest Due	City-line
650	Tr. 2pc '92‡‡(97.8)	121	4.05	17.8	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	104	3.41	10.10	16 Nov 16 May	—
1,000	Do. 2pc '96(67.9)	154	3.38	10.8	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	129	3.67	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	126	3.73	16.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	129	3.72	12.6	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	121	3.71	16.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	126	3.69	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	105	3.65	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	113	3.62	19.6	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	110	3.56	11.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	93	3.50	12.6	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%.

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

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AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
666.8	Hasbro Inc 50c	12⅛	16c	0.8	1.8	Ja Ap Au My	–
2,271.6	Honeywell $1½	51¾xd	$2.75	3.4	22.8	Mar Jun S D	2919
2,640.5	Houston Inds. ‖	22¼	$2.96	8.5	10.11	Mr Jn Se De	–
34,999.9	IBM Corpn $1¼	61⅞xd	$4.84	4.9	5.5	Mar Jun S D	2986
1.06	Image Storage/R.Sys.Inc	50p	–	–	–	–	2961
1,536.8	Ingersoll–Rand $2	29½xd	$1.20	2.6	16.5	Mar Jun S D	2979
1,640.1	Lockheed Crpn. $1	25xd	$1.80	4.6	15.2	Mar Jun S D	–
188.7	Lone Star Inds $1	11¼xd	$1.90	10.5	30.8	May Se N Mar	3216
810.4	Louisiana Land 15c	26¼xd	$1.00	2.4	29.11	Mar Jun S D	3222
762.9	Lowe's 50c	19¼	48c	1.6	11.7	Jan Ap Jly Oc	–
1,050.5	Manuf. Hanover $1	21¾	$3.28	9.5	26.6	Ja Ap Jy Oc	3279
1,736.4	Merrill Lynch $1	16⅞	$1.00	3.8	31.10	Feb My Au N	3351
583.6	Molex Inc	23	3.2c	–	–	–	3397
4,762.3	Morgan (J.P.) $2½	26½xd	$1.66	4.0	21.12	Jan Ap Jly O	3418
26,711.7	Morris (Philip)	26¾xd	$1.13	2.6	12.10	–	5161
11,357.4	NYNEX $1	53	$4.36	5.2	27.6	F May Au N	4740
2.16	N'wide Legal Serv.‖	16p	–	–	–	–	5121
383.4	PHH Corp. ‖	22¾	$1.16	3.2	4.4	Ja Ap Jy Oct	–
–	♥Pacific Agr.‖	179p	–	–	–	–	–
1,948.1	Pacificorp $3¼	28xd	$2.76	6.0	18.7	Feb My Ag Nv	–
11,825.6	Pacific Telesis 10c	30¾	$1.88	3.9	12.85	Fe My Au No	–
767.8	Pall Corp. 25c	20¼	48c	1.5	24.1	Fe My Au No	–
2,165.1	Pennzoil 83 1/3c	52¼xd	$3.00	3.6	29.8	Mar Jun S D	3630
2,886.2	Quaker Oats $5	36¼	$1.40	2.5	20.6	Jly Oc Jan Apr	3738
764.1	Rep NY Corpn $5	38⅝xd	$1.28	2.6	12.9	Jan Apr Jly O	3814
3,783.8	Rockwell Intl. $1	13xd	78c	3.8	9.8	Mr Jn Se De	3847
6,868.8	Sears, Roebuck 75c	23¾xd	$2.00	5.3	21.11	Jan Apr Jly Oc	5191
10,879.6	Southwestern Bell $1	36¼	$2.60	4.5	5.7	Fb My Ag No	–
2,727.9	Sun Co. Inc. $1	25⅝xd	$1.80	4.4	7.8	Mr Jn Se De	4135
1,813.7	TRW Inc. 62½c	30¾	$1.72	3.6	8.8	Ma Jn Se De	4318
1,125.9	TW Services $5	21¼	–	–	11.11	–	–
5,737.3	Tenneco $5	38¼	$3.04	5.0	8.8	Mr Jn Sp Dc	4194
8,393.6	Texaco $6.25	34⅜xd	$3.00	5.5	30.8	Mr Je Se De	4200
2,299.3	Texas Instr. $1	22⅞xd	72c	2.0	27.6	Ja Ap Jy Oc	5033
7,932.8	Time Inc. $1	83¼	$1.00	0.8	22.2	Mr Ju Se De	4234
465.6	TRINOVA Corp.	13¾	s68c	3.2	10.8	Mc Je Se De	4309
6,977.1	USX $1	22⅜xd	$1.40	3.9	2.5	Mr Je Se De	4380
278.7	♥Unilab	308p	–	–	–	–	–
4,312.0	Utd. Technologies	32⅞xd	$1.60	3.1	23.5	Mr Ju Sp Dc	4381
–	♥Utilitech Inc.	168p	–	–	–	–	–
9,217.1	US West‖	46	$3.76	5.2	14.4	Fb My Ag No	–
9,585.7	Waste Management $1	42½xd	60c	0.9	16.6	Ap Jly Oc Jan	4439
1,301.8	Whirlpool $1	18¾	$1.10	3.7	28.2	Mr Jn Se De	–
1,975.8	Whitman Corp.	17⅞	$1.02	3.7	6.6	Ap Jy Oc Ja	2951
2,520.4	♥Woolworth $3½	38¼	$1.88	3.1	26.1	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥ABM Gold Corp ‖	157p	–	–	–	–	–
–	♥Abbot Energy Corp	26p	–	–	–	–	–
1,152.0	♥Amer. Barrick Res.	20	–	–	–	–	–
–	♥Armeno	27p	–	–	–	–	–
–	♥Augmitto Expln.	8½p	–	–	–	–	–
1,923.3	Bk. Montreal ‖	18½	$2.12	6.2	2.8	Fb My Ag Nv	1029
1,617.9	Bk. Nova Scot. ‖	920p	92c	5.4	30.6	Ja Ap Jn Oc	–
–	♥BC Gas $1	831p	60c	3.9	30.12	Fe My Au No	–
7,125.7	BCE ‖	24¼	$2.44	5.4	12.6	Ap Jy Oc Ja	–
1,001.4	♥Brascan‖	14¼	88c	3.2	28.10	Ja Ap Jy Oc	–
39.7	♥Breakwater Res.	177p	10c	3.1	–	–	–
2,836.7	Can.Imp Bank‖	18¼	$1.24	3.7	29.6	Fe My Au No	1037
4,318.8	Can. Pacific ‖	14¼	76c	2.7	28.3	Ja Ap Jy Oc	1038

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
6.14 Sentoernova	44	–	–	–	–	1645
4.60 Sleepy Kids 5p ....y	25	–	–	–	–	5068
2.99 Staks Hldgs. 5p ....y	6½	–	–	–	–	4625
2.14 Swanyard Studios 1p y	1½	–	–	–	–	4666
0.31 System Connection 2½p y	2¼	–	–	–	–	5152
9.98 Tavern Leis. 20p ...y	39	–	–	–	–	4867
8.96 Tomorrows Leisure 20p y	80	–	–	–	–	4248
2.22 UPL Group 10p ....y	55	2.75	6.7	22.5	Dec. July	4362
7.01 Unit Group ....y	132	5.0	5.1	3.7	Jan Aug	4357
7.39 Video Magic Leis. 1p y	84	W2.0	3.2	–	Jan July	5071
3.88 Vista Ents 5p ......y	4¼	–	–	–	–	3994
10.7 Vizcaya Hldgs 5p ..y	20	–	–	–	–	4193
60.8 Whitegate Leisure 20p y	39	–	–	–	–	1105
1.67 Do. Wrrnts ....y	25	–	–	–	–	1116
22.4 Wilton Group 1p ...y	5	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ■ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS.

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ....y	88	......	Arnotts	400	......
Craig & Rose £1 ..y	830	......	Carrol (P.J.) ......y	145	–4
Finlay Pkg. 5p ....y	65	–1	Hall (R. & H.)	195	......
Holt (Jos) 25p ....y	1343	......	Heiton Hldgs. ......y	92	–½
			IRG	225	–5
			United Drug	140	......

IRISH

Cap. 8½% Ln. 1991 ...	£96⅞	......
9pc Cap Ln. 1996 ...	£96½	......
Fin. 13% 97/02 ...	£115	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	41
Amstrad	6½
Aster (BSR)	5½
BAT	67
BOC Grp	44
BTR	37
Barclays	48
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	48
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	98
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res.	12
Ultramar	28½

Mines

Lonrho	23
RTZ	45

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

D-Mark prompts EMS worries

THE STRENGTH of the D-Mark and the recent weakness of the US dollar, combined with renewed pressure on the French franc, has led some foreign exchange dealers to wonder whether the European Monetary System may soon be forced into its first realignment in almost three years.

Most currency analysts remain divided. Some expect pressures on weaker currencies within the EMS to be met with tighter monetary policies; others see a realignment in early 1990 as unavoidable.

Pressures within the EMS have built-up over the last month, most notably since the D-Mark's rise. From November 10 and the East German dismantling of sections of the Berlin Wall, the D-Mark has risen 5.7 per cent against the yen and 4.9 per cent versus the dollar.

This has inevitably generated tensions within the EMS. Mr Paul Chertkow, chief international economist at Drexel Burnham Lambert, thinks this will lead within the first quarter of next year to an across-the-board 2 per cent revaluation in the D-Mark and Dutch Guilder, while the Danish Krone and Italian Lire will be devalued by 2 per cent.

But an economist at a leading West German bank said that rather than accept a lower currency, the tensions within the EMS will be met by higher call money rates in France and a rise in interest rates in Denmark. Indeed, French call money rates have already started to rise.

However, the economist said that would put a strain on these economies, particularly Denmark's, which is not only beset with inflation but also slower growth.

UK clearing bank base lending rate 15 per cent from October 5

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5795	1.5713	1.5550	1.5309	1.4913

ECU-STERLING $s per £

	Close	High	Low	Prev.
Dec	1.5786	1.5830	1.5744	1.5760
Mar	1.5544	1.5590	1.5500	1.5516
Jun	1.5310	1.5320	1.5280	1.5280

CURRENCY RATES (extract)

Italian Lira	13½	1685.08	1501.91
Japanese Yen	3¾	186.176	165.733
Norway Krone	8	8.74290	7.79464
Spanish Peseta	-	147.390	131.487
Swedish Krona	9½	8.19380	7.29975
Swiss Franc	6.00	2.05103	1.83241
Greek Drach.	20½	N/A	186.540
Irish Punt	-	0.865331	0.771932

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Dec.7

The Commissioners of the State Bank of Victoria
(a corporation constituted under the State Bank Act 1958 of the State of Victoria, Australia)
Licensed Deposit-Taker

JAPANESE YEN 20,000,000,000
GUARANTEED STEPPED-UP COUPON NOTES DUE 1991
Repayment of principal and payment of interest and other charges to be guaranteed pursuant to the State Bank Act 1958 by
The Treasurer of the State of Victoria
Coupon No. 7

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the Rate of Interest for the Interest Period from 10th December, 1989 to 10th June, 1990 being the seventh Interest Payment Date (all as defined in the Terms and Conditions), is 8.15625% per annum. Interest payable on 11th June, 1990 will amount to ¥407,813, per ¥10,000,000 principal amount of the Notes.

Agent Bank
The Long-Term Credit Bank of Japan, Limited
Tokyo

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 8 1989 US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec.30 '88	Gross Div. Yield	THURSDAY DECEMBER 7 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (85)	147.26	+1.9	138.23	124.98	+11.0	5.44	148.11	139.42	125.79	160.41	128.28	145.56
Austria (19)	159.56	+66.3	149.77	148.69	+65.5	1.66	159.21	149.87	148.69	172.22	92.84	98.10
Belgium (63)	148.69	+10.1	139.57	136.77	+9.9	4.06	149.84	141.05	137.64	150.00	125.58	134.88
Canada (122)	151.11	+20.4	141.84	127.15	+17.2	3.21	150.71	141.87	126.87	154.17	124.67	121.42
Denmark (36)	233.28	+36.9	218.97	218.29	+37.3	1.45	234.64	220.87	219.64	237.06	165.36	157.92
Finland (26)	129.44	−1.1	121.50	113.45	−0.8	2.49	129.92	122.30	113.92	169.16	118.63	137.75
France (126)	147.71	+28.4	138.65	140.30	+28.4	2.65	146.82	138.20	139.60	147.71	112.57	112.34
West Germany (96)	110.18	+25.3	103.42	101.51	+25.1	2.06	111.41	104.87	102.66	111.41	79.56	88.26
Hong Kong (48)	115.80	+3.6	108.70	116.16	+3.6	4.90	116.41	109.58	116.78	140.33	86.41	110.33
Ireland (17)	169.68	+28.8	159.28	160.78	+30.3	2.70	171.15	161.11	162.02	171.45	125.00	131.59
Italy (97)	92.87	+9.1	87.17	90.56	+9.1	2.52	92.73	87.29	90.58	96.73	74.97	85.04
Japan (455)	197.07	+2.9	184.98	179.83	+18.7	0.45	197.82	186.03	180.28	200.11	164.22	190.81
Malaysia (36)	212.87	+48.3	199.81	221.77	+48.1	2.39	212.83	200.34	221.80	212.87	143.35	142.35
Mexico (13)	297.37	+83.7	279.13	864.46	+113.6	0.60	297.24	279.80	864.48	326.61	153.32	174.59
Netherland (43)	137.19	+22.0	128.77	125.20	+21.9	4.25	136.86	128.83	124.87	137.19	110.63	110.44
New Zealand (18)	73.50	+8.7	68.99	65.74	+15.4	5.43	73.71	69.38	65.98	88.18	62.64	66.84
Norway (24)	187.36	+34.9	175.87	172.23	+39.1	1.59	184.76	173.92	170.09	198.39	139.92	131.35
Singapore (26)	170.87	+36.6	160.39	152.25	+35.9	1.97	170.35	160.35	151.98	170.87	124.57	121.73
South Africa (60)	181.02	+54.9	169.91	158.71	+59.5	3.65	180.28	169.70	158.07	181.02	115.35	122.90
Spain (43)	159.59	+7.5	149.80	138.25	+8.5	3.80	159.59	150.23	138.28	189.75	143.14	150.08
Sweden (35)	174.86	+20.9	164.13	164.37	+25.4	2.08	171.75	161.67	161.51	188.94	138.46	144.92
Switzerland (62)	91.43	+17.1	85.82	90.55	+24.5	1.98	92.15	86.74	90.95	94.16	67.81	76.99
United Kingdom (304)	151.83	+12.2	142.52	142.51	+26.5	4.34	150.45	141.62	141.62	158.41	133.28	134.72
USA (544)	141.33	+24.9	132.66	141.33	+24.9	3.30	140.98	132.71	140.98	146.29	112.13	112.79
Europe (991)	134.37	+17.1	126.13	125.27	+24.6	3.36	134.03	126.17	125.09	134.37	112.63	114.14
Nordic (121)	175.60	+25.7	164.82	157.84	+28.1	1.80	174.43	164.19	158.86	178.38	137.95	137.61
Pacific Basin (668)	192.05	+3.1	180.26	175.00	+18.2	0.69	192.60	181.30	175.62	194.72	160.44	185.86
Euro – Pacific (1659)	169.06	+7.3	158.71	155.11	+20.0	1.55	169.27	159.34	155.42	169.43	141.56	157.03
North America (666)	141.81	+24.6	133.11	140.43	+24.4	3.29	141.46	133.16	140.09	146.66	112.79	113.24
Europe Ex. UK (687)	122.59	+20.7	115.07	114.75	+21.6	2.69	122.83	115.62	114.97	122.88	96.90	101.04
Pacific Ex. Japan (213)	131.88	+5.9	123.79	117.81	+10.5	4.90	132.48	124.70	118.51	140.06	111.93	124.16
World Ex. US (1854)	168.65	+8.0	158.30	154.41	+20.3	1.63	168.82	158.91	154.66	168.91	141.49	155.45
World Ex. UK (2094)	158.44	+13.1	148.72	150.72	+21.0	1.94	158.56	149.25	150.88	158.72	136.98	139.51
World Ex. So. Af. (2338)	157.68	+12.8	148.01	149.88	+21.5	2.14	157.67	148.42	149.95	157.90	136.67	139.17
World Ex. Japan (1943)	139.16	+21.3	130.63	134.58	+24.2	3.38	138.86	130.71	134.35	140.43	114.51	114.16
The World Index (2398)	157.82	+13.0	148.14	149.92	+21.7	2.15	157.81	148.55	149.98	158.00	136.68	139.77

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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Markets closed December 8: Austria, Italy and Spain.
CONSTITUENT CHANGES: Deletions: Noxell Corp.(US)(4/12/89) and Inspectorate (Switzerland)(8/12/89).

EUROPEAN OPTIONS EXCHANGE

BASE LENDING RATES

JOTTER PAD

CROSSWORD

No.7,112 Set by QUARK

ACROSS

1 Leaving present that's come undone? (7,4)
7 Weaken and cut a long story short (3)
9 Put off sick person attempting a comeback (5)
10 Kind of express at English and put in certain way (9)
11 Bill passed in law (9)
12 Vic in French and Chuck out! (5)
13 Pleasing feature any time *perhaps* (7)
15 Hit could come before board (4)
18 Show concern, perhaps, over matter (4)
20 Wobble like a top before kind of pit (7)
23 District of New York left out ladies quarters (5)
24 7 across? It adjoins gallery shaped like arrowhead (9)
26, 27 Might see English loser dancing, but not in these! (9,5)
28 Consume top slice off beef, for example (3)
29 Supporter giving a lift to others? (11)

DOWN

1, 21 Applied to dish: grilled? No, grated (3,6)
2 Watch – it could shoot! (8)
3 Piece of land is rented (5)
4 What shape's the earth in? It'll tell you (7)
5 Foolish graduate missed out in answer 14 (7)
6 Bitterness in sharp bit of fruit (9)
7 Said at sporting Twickenham and Wembley (6)
8 *Examination* celebrated by school's head (6)
14 CID omit one, a change of dialect (9)
16 Appoint a leader and make progress (3,5)
17 Animals, variety without tail. He'll value them (8)
19 *Fade out* when bribes turn up inside to distribute (7)
20 Botched job in the farm? (4,3)
21 See 1 down
22 75% of coastal town is smart (6)
25 Could be abrupt in a bitter session (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 23.

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Dec 8	Dec 7	Dec 6	Dec 5	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
◊Industrials	2721.23	2720.78	2736.77	2741.68	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.41	93.44	93.64	93.57	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1209.46	1211.06	1213.73	1220.84	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	228.75	227.55	227.68	228.06	228.18 (4/12)	181.84 (24/2)	228.18 (4/12/89)	10.50 (8/4/32)

◊Day's High 2750.85 (2756.83) Low 2716.51 (2702.01)

STANDARD AND POOR'S	Dec 8	Dec 7	Dec 6	Dec 5	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	348.69	347.59	348.55	349.58	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	399.22	397.90	398.71	399.71	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	31.64	31.66	31.90	32.24	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	192.92	192.38	192.82	193.19	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	375.45	375.09	375.83	374.88	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	456.24	457.20	456.67	458.55	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 1	Nov 24	Nov 17	year ago (approx.)
Dow Industrial Div. Yield	3.87	3.97	3.93	3.79
	Dec 7	Nov 29	Nov 22	year ago (approx.)
S & P Industrial div. yield	2.92	2.96	2.98	3.15
S & P Indl. P/E ratio	14.82	14.59	14.51	12.86

NEW YORK ACTIVE STOCKS

Dec 8	Stocks traded	Closing price	Change on day
Fannie Mae	7,316,500	34⅝	− 2
Global Marine	6,529,700	3⅞	+ ⅛
Pinnacle	5,091,900	11	+ ⅛
Pfizer	2,329,600	69¼	− 4⅞
Tonka	1,750,400	11¼	− 2½
La Gear	1,373,400	30⅞	− 3⅝
Fed Home	1,321,100	72⅝	− 3½
Fst. Intrstate	1,306,200	45⅞	− 2⅞
Chevron	1,259,600	66⅞	+ ⅛
IBM	1,227,700	96⅞	− 1⅛

TRADING ACTIVITY

† Volume Millions	Dec 8	Dec 7	Dec 6
New York	144.910	161.980	145.850
Amex	12.763	13.454	12.366
NASDAQ	128.145	143.977	143.951
Issues Traded	(a)	1,976	1,971
Rises	812	611	700
Falls	647	838	755
Unchanged	(a)	527	516
New Highs	(a)	61	71
New Lows	(a)	36	45

CANADA

TORONTO	Dec 8	Dec 7	Dec 6	Dec 5	1989 HIGH	1989 LOW
Metals & Minerals	3314.66	3325.62	3344.30	3369.31	3919.2 (1/9)	3207.5 (3/1)
Composite	3982.73	3969.45	3951.66	3939.84	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2021.04	2019.01	2015.30	2007.53	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (a) Unavailable.

	Dec. 8	Dec. 7	Dec. 6	Dec. 5	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1626.1	1634.5	1639.6	1637.1	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	803.4	804.2	802.3	802.6	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	(c)	452.51	437.92	429.43	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6547.91	6587.42	6575.49	6564.47	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	356.26	359.39	360.93	359.27	360.93 (6/12)	275.49 (27/2)
FINLAND						
Unitas General (1975)	613.7	621.3	(c)	626.3	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	547.6	547.8	542.6	543.8	561.6 (11/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	126.6	126.3	125.7	124.3	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	691.26	700.14	695.74	684.01	700.14 (7/12)	535.78 (27/2)
Commerzbank (1/12/53)	2045.3	2068.9	2054.4	2018.8	2068.9 (7/12)	1595.7 (27/2)
DAX (30/12/87)	1650.79	1664.08	1658.35	1626.61	1664.08 (7/12)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2754.11	2770.00	2756.39	2764.44	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1717.20	1723.46	1732.79	1719.90	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	(c)	669.22	667.87	667.96	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	37724.06	37858.11	37654.29	37494.17	37858.11 (7/12)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2871.93	2879.02	2867.32	2850.82	2879.02 (7/12)	2366.91 (6/1)
2nd Section (4/1/68)	3779.96	3767.02	3754.16	3744.59	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Tl.Rtn.Gen.(End 1983)	263.8	263.2	262.3	263.8	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	202.5	202.0	201.3	202.5	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	654.54	643.30	640.18	632.42	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	(c)	(c)	(c)	(c)	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1444.96	1445.54	1443.33	1431.39	1445.54 (7/12)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2161.0§	2168.0	2117.0	2084.0	2168.0 (7/12)	1291.0 (15/2)
JSE Industrial (28/9/78)	2741.0§	2725.0	2659.0	2618.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	864.50	874.94	893.27	884.12	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	(c)	304.56	(c)	305.55	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4070.3	4007.4	4000.6	3977.0	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	770.9	772.6	770.4	771.0	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	8513.80	8123.50	8283.56	8701.15	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	793.88	783.80	785.40	(c)	793.88 (8/12)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	556.7	557.7	556.2	557.7 (7/12)	487.6 (13/6)

**Saturday Dec. 2: Taiwan Weighted Price: (c) Korea Comp Ex. 896.34.
§ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday December 8 1989

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mt M	37.3m	2,350	+80
Sumitomo M Ind.	25.7m	904	-14
Kobe Steel	18.3m	858	-19
Tokyu	15.7m	2,870	+60
Nippon Oil	14.8m	1,840	+70
Daiichi Kisen	11.8m	1,340	-10
Nippon Steel	11.3m	820	-7
IHI	10.3m	1,580	+40
Honshu paper	9.8m	1,290	+20
Mitsukoshi	8.8m	2,660	+60

CANADA

TORONTO
Closing prices December 8

MONTREAL
Closing prices December 8

Total Sales 6,382,022 shares

AMEX COMPOSITE PRICES
4pm prices December 8

4pm prices December 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37½	22¼	AAR	.48	1.3	22	182	36	35⅜	35⅝	+ ⅛
9⅝	8⅛	ACM n	1.01	11.		x187	9½	9⅛	9¼	
11⅝	10¼	ACMIn	1.26	11.		429	11⅝	11⅛	11⅞	
10⅞	8	ACM M	n1.01	11.		z776	9	8⅞	9	+ ½
11½	10	ACM Sc	1.26	11.		790	11¼	11⅛	11¼	
9½	8⅞	ACMSp	1.01	11.		1017	9¼	9⅛	9⅛	- ⅛
18	11½	AL Lab	.12	.7	18	66	17⅛	17	17	- ⅛
4⅛	3⅛	AMCA	.12e	3.4	23	27	3½	3⅜	3½	
8⅛	4⅛	AM Intl			9	787	4½	4⅛	4⅛	- ⅛
23½	18½	AM In pf	2	11.		26	18¾	18⅝	18⅝	- ⅛
107¼	51½	AMR			8	2005	65⅞	64	64	- ¾
27	25	ANR pf	2.67	10		3	25¾	25¾	25¾	+ ⅛
6½	3½	ARX				282	3⅝	d 3⅛	3⅝	+ ⅛
57½	37⅞	ASA	3e	5.3		2185	57½	55¾	56⅞	+ ⅞
30⅞	16½	AVX	.24	.8	29	2614	29⅞	29⅛	29¼	- ⅛
70⅞	46	AbtLab	1.40	2.1	18	4393	67⅞	66⅞	67⅛	
18¼	12⅛	Abitibi g	1			57	12¾	12¾	12¾	
13	7⅝	AcmeC	.40	4.1	13	67	10	9⅞	9⅞	+ ⅛
9¾	5⅞	AcmeE	.32	3.8	11	7	8½	8⅜	8½	
36½	22	Acuan			27	611	32½	32	32¼	- ¼
15¾	12⅞	AdaEx	2.06e	13.		462	15⅝	15¼	15½	
12⅝	6½	Adobe				92	12⅛	11⅞	12⅛	+ ⅛
19⅜	16½	Adob pf	1.84	9.9		5	18⅞	18⅝	18½	
21⅝	19⅞	Adob pf	2.40	11.		14	21⅞	21⅛	21⅛	- ⅛
10½	7⅛	AMD				1978	7⅝	7½	7⅝	+ ¼
35	28½	AMD pf	3	10.		11	29⅞	29¾	29¾	
10⅛	6⅝	Advest	.16	1.8	15	35	9	9	9	
62½	46	AetnLf	2.76	4.5	10	1517	61⅝	60⅞	60⅞	- ⅝
14	11⅛	AflPb	.24	2.1		340	11⅜	11⅛	11⅜	+ ⅛
25	15¼	Ahmans	.88	4.8	9	2455	18⅝	18¼	18⅝	+ ⅛
3⅞	2¼	Aileen				54	2⅝	2½	2⅝	
48¾	39⅝	AirPrd	1.32	2.9	11	795	46⅛	45¾	45⅞	- ⅛
38⅝	18½	AirbFrt	.60	1.5	20	204	39¼	38¾	39⅛	+ ½
25¼	14½	Airgas			14	53	23⅞	23⅝	23⅞	- ⅛
20¾	18⅛	Airlease	2.40	12.	11	18	19⅞	19¾	19¾	
24¼	21½	AlaP	pf2.09e	8.6		30	21¾	21⅞	21¾	
10¼	8½	AlaP	dpf.87	9.1		70	9⅝	9½	9⅝	+ ⅛
98⅝	86¼	AlaP pf	9	9.4		z100	96¾	96¾	96¾	- ⅛
93	80	AlaP pf	8.16	8.9		z200	92	92	92	+ ¼
30½	19⅞	AlskAir	.20	.9	8	418	23¾	23⅜	23½	- ⅛
23½	14½	Albnyin	.35	1.8	12	289	19	19	19	- ⅛
53⅛	32¾	Alberto	.36	.8	20	70	44½	44¼	44¼	- ½
41½	25½	AlbCulA	.36	1.0	17	5	37⅞	37¾	37¾	- ¼
60¼	36⅞	Albtsn	.80	1.4	18	310	57⅛	56⅝	56⅞	+ ¼
25⅛	20⅛	Alcan s	1.12	4.9	6	2787	22⅞	22⅝	22¾	
36⅞	23⅞	AlcoStd	.84	2.5	13	312	33¾	33⅜	33⅝	+ ½
34	22⅝	AlexAlx	1	3.0	23	872	34	33½	33⅞	+ ⅝
71⅞	51	Alexdr			27	5	52½	52½	52½	+ ⅛
103½	70	AllegCp	1.63t	1.7	12	11	96½	94¾	94¾	- 1⅞
2⅛	⅛	vjAlgInt				298	5-16	¼	¼	- 1-16
4⅞	¼	vjAlgl pr				149	¼	d7-32	7-32	- 1-32
15⅛	⅝	vjAll pfC				119	¼	11-16	11-16	- 1-16
41⅝	29⅛	AlgLud	1.20	2.9	7	725	41⅛	40¾	41	- ⅛
42½	35⅛	AlgPw	3.16	7.5	11	1665	42⅛	41⅞	41⅞	- ⅛
16⅞	9	AllenG			18	92	12⅜	12⅛	12¼	- ⅛
19⅞	11½	Allen	pf1.75	11.		13	16¼	15⅝	15⅞	- ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

NASDAQ NATIONAL MARKET

4pm prices December 8

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

The Business Column

The coming bonanza in eastern Europe

If I were a currency speculator, I have little doubt where I would put my money right now: on the East German Mark.

Millions, possibly billions, of this currency have poured through the breach in the Berlin Wall in the last few weeks, driving what little value it had down to nearly nothing. Compared to its original official rate of parity with the Deutschemark, it fetches only five pfennigs on the black market. And since it's non-convertible, the black marketeers can't sell it back to the East German central bank. So oceans of the stuff are swilling around the border, just waiting for buyers.

And it's a bargain – not because of what it will buy, which is exceedingly little, but because of the measures that both Germanys will have to take to get the East German economy back in order.

Already the authorities are preparing to introduce the Deutschmark into East Germany; they have little choice – it is finding its way there willy nilly. And what will follow is quite obvious. In a reverse of Gresham's law, the D-Mark will drive out the Ostmark and become the established currency. But West Germany will be obliged by political and moral pressures to buy in Ostmarks and swap them for D-Mark at a considerably more attractive rate than they fetch at the moment.

Imagination

This process of currency reform will occur quite rapidly, probably by the end of next year, because if it is not done in an official and orderly way, the market will do the job on its own, causing even more damage. Holders of Ostmarks could therefore come out of it all quite well.

If that sounds fanciful, it merely shows that people have not yet applied sufficient commercial imagination to the incredible events that are going on in eastern Europe. Things are moving so fast over there, and the opportunities for bold entrepreneurship are so enormous that thousands of people must be facing the chance to make a fortune.

It is extremely rare that situations with so much potential "upside" present themselves these days, particularly in the western world where technological speed and efficient arbitrage wipe out profitable disparities almost instantaneously.

For those with a dealing mentality, eastern Europe has just about everything they could wish for: highly inefficient markets, gross distortions, poor or non-existent information, and political unpredictability. Yet at the same time, it is close to hand, the population is driven by similar hopes and fears to those in the West, and there is very little chance that the events of this autumn will be rolled back, all of which limits the downside.

Entrepreneurialism will not itself, of course, solve the problems of the East. Indeed, where it verges on profiteering it will do more harm than good, and it would not be surprising if measures were introduced to curb some of the less attractive features of capitalism.

Dynamism

But this is where the dynamism is to be found. Whether it be the currency speculators, the Poles selling junk on the banks of the Danube, East Berliners flogging their services in West Berlin, or the western entrepreneurs who are already making their way east to trade wares or set up eastern European Recovery Funds: these are the currents of trade through which real contacts are being made, and real prices set. The pressures they represent could be as formidable a force for change as the political turmoil at the top.

The main thrust of the West's response to the East's peaceful revolution will have to take the form of enlightened self-interest: officially-backed projects which are intended as much to underpin democratic change as reap a commercial profit. And that will set in motion the great wheels of international trade. But how exciting it must be for anyone with a nose for a deal to stand on the threshold of the biggest new markets to appear since the end of the Second World War.

David Lascelles

THE MONDAY INTERVIEW

A distinctive voice on the back benches

Frank Field, the threatened Labour MP for Birkenhead, talks to **Michael Prowse**

'I want the phasing out of all those tax handouts'

Frank Field is something of an oddity in British politics: an independent thinker and committed Christian who genuinely seems more interested in policy issues than in personal advancement. During a decade at Westminster, he has rarely allowed himself to be constrained by the official Labour Party line, preferring to speak his mind.

On Friday, his local constituency party decided it did not want him to be the Labour candidate at the next general election. However, having won a clear majority in the one-member, one-vote section of the ballot, he is unhappy about being ejected as a result of a "corrupt trade union vote."

Mr Field claims a campaign against him has been orchestrated by Militant and other hard-left factions. He meets Mr Neil Kinnock, the Labour Party leader, today to discuss his future.

Mr Field's brand of independent thinking is not universally admired in the House of Commons. But he "deeply resents" the charge that he is a maverick and out of touch with mainstream thinking in the party.

During the early 1980s, he says, "the Labour Party experienced difficulties which, had they occurred in an individual, would have been called a breakdown." Against the spirit of the times, he and some close colleagues in Birkenhead preached the importance of market forces and began the campaign for one person one vote elections within the party.

"All of these stances were deeply unpopular," he says, "but now they are current orthodoxy." Those who have since changed their opinions, he suggests, have some explaining to do. "I don't because I have not deviated." If I was a maverick then, he jokes, we must be 101 per cent mavericks in the Labour party today.

But if he was fully in step with the Labour leadership, would he not now occupy an important shadow Cabinet position?

Mr Field brushes this objection aside, emphasising what a good relationship he has with the Labour leader. "I probably see Neil Kinnock more often than any other backbencher, probably more often than his front benchers. I was Mr Kinnock's choice as chairman of the Social Services Committee."

Mr Field has been a success as chairman of the Social Services Committee, producing a series of well-researched and hard-hitting assessments of the Government's health service reforms. But it still seems odd that a shadow Cabinet place cannot be found for an MP who has published six books on social policy in the 1980s and who generates more reform proposals than a roomful of his Parliamentary colleagues.

Looking at Mr Field, neatly dressed in a striped shirt and tie, and thinking of his policy proposals, such as a 12 per cent standard rate of tax, I wondered inwardly why he had not become a left wing member of the Conservative party.

His parents, he confided, were "typical working class Tories. That's why I understand that part of the vote quite well." His decision to join the Labour Party at the age of 16 was partly a response to the arguments of friends and good debates at his grammar school.

Mr Field was the first in his family to go to university, reading economics and politics at Hull. On graduating, he considered a career in the trade union movement but "there weren't that many jobs going". He ended up lecturing for five years at colleges of further education.

From there, Mr Field plunged into the fractious world of interest group lobbying, becoming director of the Child Poverty Action Group in 1969. From 1974, he was also director of the Low Pay Unit.

PERSONAL FILE

1942 Born London; BSc (Econ) Hull University
1966 Labour candidate, Buckingham South
1969-79 Director, Child Poverty Action Group
1974-80 Director, Low Pay Unit
1979 Labour MP, Birkenhead
1987 Chairman, House of Commons Social Services Committee

He campaigned vigorously for the introduction of child benefit, a non means-tested payment to all mothers which was eventually introduced by the Labour Government in 1977. But to put this triumph in perspective he gloomily points out that after 10 years of lobbying there were more people on low incomes than when he started.

The irony, of course, is that poor families might be better off today if child tax allowances had never been replaced by child benefit. The Thatcher Government has cut child benefit because it counts as public spending but it might have enthusiastically raised child tax allowances as part of the drive to improve incentives.

"It was right at the time," says Mr Field, "but it is questionable now, which is why I advocate the reintroduction of child tax allowances." He sees child tax allowances as a way to embarrass the Government and gain resources for poor people.

At the Low Pay Unit, Mr Field wrote briefs on behalf of poorly-paid, non-unionised workers. "We pitched in with figures showing how appalling their wages were in the hope they would get inflation-proofed increases." In the labour movement, he says, the idea of a minimum wage equivalent to two thirds of average earnings is now regarded as having come down from Mount Sinai. "It occurred to us in Poland Street one autumn afternoon."

Mr Field still supports the concept of a minimum wage but thinks it should be lower, at about half average earnings, to minimise the impact on employment. He stresses it would have to be linked to other policies, such as investment in training, designed to raise productivity, output and real wages.

But why not let the market decide wages and protect workers with a guaranteed minimum income?

Mr Field is unimpressed with this solution. It would be difficult to withdraw benefits from those whose incomes exceed the guaranteed minimum. There would be all kinds of disincentive effects. In any case, it would be culturally wrong: "we just don't have that approach in this country."

The philosophy underlying many of Mr Field's policy proposals (although not those on wages) seems quite close to that of the Government. I wondered if he supported the thrust of recent tax policy, which has been to cut tax rates in order to boost incentives.

"I don't support it." He points out that the tax cuts have been financed by cuts in *social welfare* for the poor when they should have been financed by cuts in "tax welfare" enjoyed by many middle and working class families. You have to be insane, he says, to save in any way other than by buying a house or pension because the subsidies are so enormous.

"I want to see the phasing out of all those tax handouts." This would allow the standard rate of tax to be cut to "perhaps 12p in the pound."

But he is sceptical of claims that cuts in tax rates necessarily improve incentives. He points out that the commentators who got excited about the rising share of tax paid by high earners during the 1980s failed to add that the share of *income* received by these groups rose proportionately far more rapidly.

"The plain fact is that none of us know what the incentive effects are. It is an area one should approach cautiously not dogmatically."

What about the health service. Does he accept the changes are on balance beneficial?

"You know as well as I do that if the Government had its time again, it wouldn't touch this. Mrs Thatcher's initial instinct, as so often, was right." He rejects the argument that the Government is seeking to raise the efficiency of the NHS while maintaining its traditional virtues.

Large parts of the service, he says, are no longer free at the point of delivery. In his constituency elderly people who would have gone into geriatric wards are now pushed into nursing homes where "42 per cent of residents do not get their fees paid in full." Having studied the NHS for some years, he is "amazed at how well it runs."

What he is campaigning for is a change in the way the NHS is financed. He thinks there should be a special earmarked health tax. If people realised how much of their own money they spent on the NHS, he says, they would be more demanding as consumers.

Mr Field is also deeply concerned by the decline of traditional family values. He recently visited a Liverpool crèche of 70 where only four of the children had mothers and fathers living together. "We have got to change the climate," he says. "At the moment we have divorce laws that can break a marriage up after less time than the average hire purchase agreement."

Perhaps Mr Field's strongest criticism of the Government is that it has created an underclass by pursuing policies which "expel people from citizenship." One of the main "expelling agents" has been the decline in the living standards of the poorest during an era of great prosperity for the better off.

At the end of the 1950s, he says, Harold Macmillan recognised that it was not good enough to raise benefits in line with prices, they also had to be linked to rising prosperity and earning. That linkage, he says, must now be restored.

Who does he most admire in British political life, I asked finally. The two names that sprang immediately to his mind were Neil Kinnock and Margaret Thatcher. Mr Kinnock for the way he knocked the Labour party into shape; Mrs Thatcher for her courage in going straight for the Tory party leadership in 1975. Her contenders today, he suggested, lacked her guts.

"One of the achievements of Mrs Thatcher," he adds, "is that she has made Labour electable. Once out of power, we could never have done the trade union reforms, but without them we would not be electable."

When judges recoil from 'political' issues

JUSTINIAN

If the Prime Minister has been out of step with Britain's European partners at the Strasbourg summit she has not been alone in distancing the UK from European standards of government.

Twice last week the Court of Appeal declared that the fundamental freedoms contained in the European Convention on Human Rights were irrelevant to legal challenges: first, to the Home Secretary's ban on broadcasters conveying the live utterances of IRA terrorists; and second, to a prohibition by the General Medical Council of newspaper advertising by a doctor practising holistic medicine.

In both cases counsel for the challengers of administrative action sought to rely on the freedom of expression guaranteed by Article X of the convention as a *starting point* of his argument. It is not immediately apparent to the public why he was so firmly rebuffed by the Court.

The convention is contained in an international treaty of 1950. The convention binds the signatories to it to "secure to everyone within their jurisdiction the rights and freedoms" in the convention. The convention set up a commission and a court to which individuals have been able to resort, since 1966, alleging violations by the UK Government.

International treaties do not automatically become part of English law. They become part of domestic law only as and when Parliament enacts the treaty, as it did with the Rome Treaty in the European Communities Act 1972.

In recent years English judges have been inching their way towards acknowledgement of the fundamental freedoms declared in the convention parallel with the traditional approach of English law. Lord Donaldson said as much last week when he proclaimed: "You have to look long and hard before you can detect any difference between the English common law and the principles set out in the convention, at least if the convention is viewed through English judicial eyes."

The sting is in the tail. English judicial eyes are myopic when it comes to constitutionally guaranteed rights. English judges cling lovingly to the *supposed flexibility* of our unwritten constitution. Lord Donaldson's orthodox approach is that any back-door incorporation of the convention into English law by the courts would be constitutionally improper as long as Parliament keeps the front door firmly shut.

The metaphor is inapt. The front door is ever open; it is just that Parliament has not considered it necessary to give effect to Britain's international obligation under the convention because, as Lord Donaldson admits, its provisions are assumed to be entirely conformable with the citizen's liberties under English common law.

Lord Donaldson has however overlooked the fact that there has already been a limited march of the judiciary through a side door. The opinions of that other European legal institution, the European Court of Justice at Luxembourg, are binding in UK courts. The court some years ago declared that in deciding disputes under the EC Treaty it would take on board all the relevant jurisprudence of the Human Rights Court at Strasbourg. To that extent the convention has come in through the double doors of the European Communities Act 1972 and the rulings of the Luxembourg court.

Why is the English judiciary so obdurate in resisting the jurisprudence of the European Court of Human Rights? If the English common law enunciates the rights of every individual to *freedom of speech*, the extent and nature of that right as declared by a court whose jurisdiction we fully accept internationally should surely be of at least persuasive, if not binding, authority.

It cannot be that the courts in this country are not permitted to interfere with the proper processes of executive government, even though they may properly be reluctant to do so. Some cases before the courts moreover do not involve either *central* or *local government* but are merely concerned with public administration. The case challenging the General Medical Council was against that independent body set up by Parliament and entrusted with control over the medical profession. The case of the journalist protecting his source of confidential information affects the protection of private commercial interests.

It may be that judges for good reasons wish to avoid any suggestion that they are putting their fingers into the political pie. But judges also genuinely feel that many issues of social policy are not justiciable – that their training and experience do not qualify them to pronounce on a wide variety of social and public interests, matters that are better left to bodies more widely representative in their composition. It is a respectable argument that needs addressing before the country loses one vital segment of protection against arbitrary government. When, as now, Parliament is ineffective to control the executive, the courts must fill the void. Government in its widest sense is tripartite, not unilateral.